ALWAYS IN THE RIGHT PLACE.

ANNUAL REPORT 2014

TLG IMMOBILIEN

KEY FIGURES

KEY GROUP FIGURES ACCORDING TO IFRS

	Unit	31.12.2014	31.12.2013	Change in %
Results of operations				
Rental income	in EUR k	114,776	118,321	-3.0
Net operating income from letting activities	in EUR k	100,263	106,250	-5.6
Disposal profits	in EUR k	10,611	8,271	28.3
Net income	in EUR k	88,650	99,132	-10.6
FFO	in EUR k	52,370	46,129	13.5
FFO per share [1]	in EUR	0.97	0.89	9.0

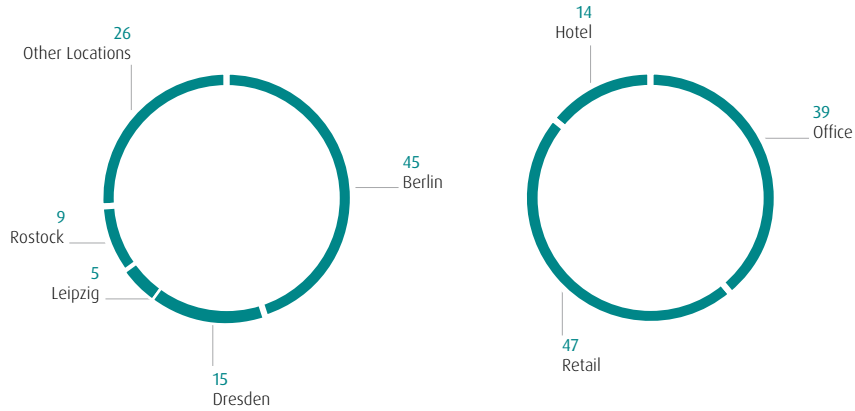
	Unit	31.12.2014	31.12.2013	Change in %
Balance sheet metrics				
Investment property	in EUR k	1,489,597	1,414,691	5.3
Cash and cash equivalents	in EUR k	152,599	138,930	9.8
Total assets	in EUR k	1,738,000	1,635,694	6.3
Equity	in EUR k	747,964	801,036	-6.6
Equity ratio	in %	43.0	49.0	-6.0 pp
Liabilities to financial institutions	in EUR k	770,447	626,227	23.0
Net debt	in EUR k	617,848	487,297	26.8
Net LTV [2]	in %	40.3	33.3	7.0 pp
EPRA NAV	in EUR k	914,008	913,533	0.1
EPRA NAV per share [1]	in EUR	14.91	17.57	-15.1

[1] Before the company became an Aktiengesellschaft (stock corporation) on 5 September 2014, it was a limited liability company (GmbH). Therefore, for the purposes of comparison, the value of the issued shares is the value that would have existed if the company had always been an Aktiengesellschaft with the same number of shares: 52.0 mn on 31 December 2013, 61.3 mn on 31 December 2014.

[2] Calculation: Net debt divided by property value, for the composition see page 121 et seq

Core portfolio by region and asset class (fair value) as at 31 December 2014

in %



ABOUT TLG IMMOBILIEN AG

OVER 20 YEARS OF REAL ESTATE EXPERTISE

As an active portfolio manager, TLG IMMOBILIEN is a specialist in office and retail properties: in its high-quality portfolio, it primarily manages office properties in Berlin and other regional economic centres such as Dresden, Leipzig and Rostock, as well as a regionally diverse portfolio of retail properties in highly frequented micro-locations in East Germany. Additionally, its portfolio includes five hotels in Berlin, Dresden and Rostock. TLG IMMOBILIEN generates stable rental income and has low vacancy rates and well-maintained buildings. The portfolio is distinguished by properties in good and excellent locations with many long-term rental/lease agreements.

2014

Flotation of TLG IMMOBILIEN on 24 October 2014 and listing on the regulated market (Prime Standard) of the Frankfurt Stock Exchange. Inclusion in eight indices of the FTSE EPRA/NAREIT Global Real Estate Index Series by fast entry.

2012

In spring, TLG IMMOBILIEN transfers the residential property portfolio to TLG WOHNEN in order to privatise both companies.

TLG WOHNEN is sold to TAG IMMOBILIEN AG in November.

The financial investor Lone Star acquires TLG IMMOBILIEN in December.

2000

In line with its strategic repositioning, TLG IMMOBILIEN starts turning from a sales-based privatiser into an active portfolio manager specialising in rentals, development, acquisition and selling.

1995

TLG IMMOBILIEN assumes ownership of the property portfolio which it had previously only managed.

1991

Foundation of the company.

PROPERTY LOCATIONS IN CORE REGIONS

With two effective branches in Berlin and Dresden, as well as various regional offices, TLG IMMOBILIEN has access to well-developed and established local networks in the growth regions of East Germany. The employees on-site stand for solid market experience and have long-term working relationships with a number of private and institutional market participants and decision-makers.

Headquarter **Branch** Regional office

OUR BUSINESS MODEL

The business model of TLG IMMOBILIEN AG is based on the following elements:

STRATEGIC PORTFOLIO MANAGEMENT

- Characterised by a profound understanding of local markets and real estate, we render invaluable services including strategic portfolio management and monitoring, evaluation and portfolio planning from a central location.

ACQUISITIONS AND SELLING

- TLG IMMOBILIEN has excellent networks in its core markets thanks to its years of extraordinary local expertise. This creates attractive growth potential for the company and opportunities to sell properties that do not belong to the core portfolio at the best-possible price.
- By focusing on the office and retail asset classes and engaging in both core and value-added investing, the company is able to create a wide range of investment opportunities.

ASSET AND PROPERTY MANAGEMENT

- TLG IMMOBILIEN covers all key elements of the real estate value chain internally. In this context, the decentralised responsibility for commercial property management and tenant relations is borne by the various branches and regional offices.

MISSION

POTENTIAL VALUE

For over 20 years we have been a leading real estate specialist in Berlin and the growth regions in East Germany. To recognise opportunities and seize them with all of our expertise is part of our corporate instinct. Our top-quality portfolio and expertise allow us to combine the business models of our clients with the advantages of our locations and the reliability of a long-term partnership.

In this report, find out how we will retain our strong position in the future and how we intend to expand it through targeted growth.

CONTENTS

You can find more information by following these pictograms:

Download

Image information

Page reference

MANAGEMENT BOARD

Peter Finkbeiner (left),
Niclas Karoff (right)

DEAR SHAREHOLDERS,
DEAR BUSINESS PARTNERS AND TENANTS,
DEAR SIR OR MADAM,

In these, our first financial statements as an Aktiengesellschaft and listed company, we reflect on a special year in the history of our company.

With a number of significant property acquisitions with a total investment volume of approximately EUR 126 mn, we successfully implemented our growth-based corporate strategy in the 2014 financial year. We also continued to refine our portfolio. Therefore, in 2014 we successfully sold properties that did not belong to our core portfolio at a profit, for a total volume of EUR 112 mn.

The optimisation process launched in 2013 was completed on schedule by the end of the year. The organisation of TLG IMMOBILIEN became more efficient and powerful as a result of the optimisations. On the basis of this modern corporate structure and a sound strategy, the company made its début on the capital market on 24 October, 2014 in spite of the difficult stock market situation. Among the real estate companies listed on the stock exchange, TLG IMMOBILIEN is a specialist which focuses on commercial real estate and which solely occupies the attractive growth market in East Germany.

Our business model focuses on the management of office, retail and hotel assets in Berlin and the growth centres in East Germany. Future growth is driven by targeted acquisitions of office and retail properties in our core regions. This will enhace our high-quality portfolio and guarantee reasonable income growth in the long term.

The fair value of our portfolio was measured at approximately EUR 1.5 bn as at 31 December 2014. As at the reporting date, the core portfolio consisted of 323 properties which are efficiently administrated by two regional branches in Berlin and Dresden, as well as offices in Leipzig, Chemnitz, Erfurt and Rostock. Besides investments in the maintenance and development of our property portfolio, our operative business primarily focused on contractual extensions and new rental agreements. At the end of the reporting period, the net operating income from letting activities was EUR 100.3 mn and was therefore 5.6% lower than in the previous year. The decrease resulted from the strategic sale of properties that did not belong to our core portfolio.

"TARGETED ACQUISITIONS OF OFFICE AND RETAIL PROPERTIES WILL ENHACE OUR HIGH-QUALITY PORTFOLIO AND GUARANTEE REASONABLE INCOME GROWTH IN THE LONG TERM."

Considered like-for-like, the contractually agreed rents increased by 3.7%. The funds from operations (FFO), a key figure for TLG IMMOBILIEN, increased by 13.5% to EUR 52.37 mn in the 2014 financial year, in which regard our forecast of approximately EUR 50 mn was clearly surpassed. The main drivers were low personnel and finance costs. The EPRA NAV per share calculated for the 2014 financial year was EUR 14.91 as at 31 December 2014.

At the end of 2014, the TLG IMMOBILIEN share price was EUR 12.47. Compared to the issue price of EUR 10.75, this corresponds to an increase of 16.0% which neither SDAX, MDAX nor DAX could match in this period. TLG IMMOBILIEN AG therefore considers its début on the capital market successful. Additionally, on 24 February 2015 the shares of TLG IMMOBILIEN were unexpectedly admitted to the SDAX by Deutsche Börse.

We intend to distribute a dividend of EUR 15.3 mn for the 2014 financial year in order to share our business success with our shareholders. With 61.3 mn shares as at 31 December 2014, the dividend therefore equals EUR 0.25 per share.

The positive and profitable development of the company was only possible with the high levels of commitment shown by our employees. Our employees also had to cope with the intensive preparation of all divisions for the flotation that took place in autumn 2014. We would like to take this opportunity to thank them for their effort.

We also owe our thanks to you, our valued shareholders. We thank you for your confidence in us and we will feel a special obligation towards you in the future.

Dear business partners and tenants, we would like to thank you for your reliability in the previous financial year. We look forward to making our mark on the current financial year with a successful partnership together.

In 2015, our operative business activities will continue to focus on maintaining and developing our real estate portfolio. We plan to add more valuable properties in our core regions to our core portfolio and sell off properties that do not belong to our strategic real estate portfolio. Taking the announced growth compared to 2014 into account (2014: EUR 52.37 mn), we expect an increase in funds from operations of at least 10% in 2015 which will allow for an attractive distribution to our shareholders. Likewise, we are looking forward to our first general meeting as a listed company on 25 June 2015 where we will be able to set the course for the future of TLG IMMOBILIEN with you, our valued shareholders.

Berlin, 30 April 2015

Peter Finkbeiner
Member of the Management Board

Niclas Karoff
Member of the Management Board

SUPERVISORY BOARD

(from left to right)
Axel Salzmann

Alexander Heße
Vice-chairman

Elisabeth Stheeman

Michael Zahn
Chairman

Dr Claus Nolting

Dr Michael Bütter

DEAR SHAREHOLDERS, DEAR SIR OR MADAM,

The Supervisory Board is as young as TLG IMMOBILIEN AG. The Supervisory Board was first appointed on 5 September 2014, when TLG IMMOBILIEN GmbH became a stock corporation (Aktiengesellschaft), and it has accompanied the Company along its successful path ever since.

MONITORING OF THE MANAGEMENT

The 2014 financial year was characterised by the Company's change of legal status and by the preparation and execution of its successful IPO. The Supervisory Board played an active role in these processes by advising and coordinating with the Management Board. In doing so, in 2014 the Supervisory Board fulfilled the responsibilities incumbent upon it in line with the law, Articles of Association and rules of procedure.

Overall, it was closely involved with the work of the Management Board, regularly advised it on the management of the Company, carefully monitored it and ensured that the management of the Company was legally compliant, proper and appropriate. The Management Board fulfilled its duty to provide information by providing the Supervisory Board with regular, prompt and comprehensive reports on all relevant matters of strategy, planning, business development, risk, risk development, risk management and compliance. Even between meetings, the Management Board submitted written reports on specific issues and explained certain matters. Furthermore, the Management Board kept the Chairman of the Supervisory Board continuously informed of current business developments, upcoming decisions and long-term perspectives and considerations with regard to future developments, and discussed such matters with him.

As described in more detail below, the Supervisory Board was promptly and directly involved in all decisions of fundamental importance to the Company. The Supervisory Board examined transactions requiring its approval and discussed each one with the Management Board (such as the appointment of two managing directors in a subsidiary and the acquisition of a property in Berlin).

COMPOSITION OF THE SUPERVISORY BOARD

The general meeting held on 5 September 2014 adopted the change of structure of the Company from a GmbH to an AG. At the first general meeting of the shareholders of TLG IMMOBILIEN AG, Mr Michael Zahn, Mr Alexander Heße and Dr Claus Nolting were elected to the Supervisory Board. At the second general meeting, held on 25 September 2014, Ms Elisabeth Stheeman, Mr Axel Salzmann and Dr Michael Bütter were also elected to the Supervisory Board. In line with Article 11.1 of the Articles of Association, the Supervisory Board of the Company has consisted of six members ever since.

In the 2014 financial year, the Supervisory Board convened three times – on 8 September 2014, 1 October 2014 and 25 November 2014 – in order to fulfil its duties. Of these meetings, two were in person, namely on 8 September 2014 and 25 November 2014. The other meeting on 1 October 2014 was a teleconference. Additionally, whenever necessary the Supervisory Board

members coordinated outside of meetings by phone, by email and in person. The three Supervisory Board members elected so far took part in the Supervisory Board meeting on 8 September 2014; all six Supervisory Board members took part in the other two meetings in the 2014 financial year.

At its meetings, the Management Board promptly briefed the Supervisory Board in detail on turnover, earnings, liquidity, budget planning and the current course of business of the Company and the Group, including the Company's risk situation, risk management, compliance, strategic objectives and all major organisational and staff changes. At various Supervisory Board meetings, the Management Board reported on the economic, financial and strategic situation of the Company and Group, the Company's growth strategy and major developments and events, including any ongoing legal disputes.

In the committees and in Plenum, the members of the Supervisory Board always had sufficient opportunity to critically evaluate the reports and proposals of the Management Board and voice their own suggestions. In particular, the Supervisory Board discussed all significant transactions with reference to written and verbal reports from the Management Board and reviewed their plausibility.

In the 2014 financial year, matters relating to the successful IPO of the Company were naturally of special significance. The consultations centred on the general business, economic and financial conditions as well as matters of corporate governance and special responsibilities assigned to the Supervisory Board, i.e. the conclusion of the Management Board's contracts. The Supervisory Board discussed the organisation of the Company with the Management Board, reviewed the effectiveness of the organisation, risk management and the company-wide compliance system and discussed key issues of strategy and business policy with the Management Board. Especially in connection with the IPO, the discussions focused on the strategic orientation of the Company.

In the Supervisory Board meeting held on 8 September 2014, Mr Michael Zahn was appointed Chairman of the Supervisory Board and Mr Alexander Heße was appointed Vice-chairman. Additionally, Mr Peter Finkbeiner and Mr Niclas Karoff were elected to the Management Board of the new TLG IMMOBILIEN AG at this meeting. Furthermore, the rules of procedure for the Supervisory and Management Boards were also adopted, the legal signatories were confirmed and the Chairman of the Supervisory Board was authorised to conclude the employment contracts for the members of the Management Board. The particulars of the Management Board members' contracts were discussed in this context. Following the discussions on the rules of procedure for the Management Board and the allocation of the various divisions, the Supervisory Board discussed the reasonable composition of the Management Board (in terms of diversity). In light of the German law on equal opportunities for men and women in managerial positions in public and private companies, the Supervisory Board will address the issue of having a fair proportion of women as it will be responsible for defining goals designed to increase the number of women on the Supervisory and Management Boards and for setting deadlines for these goals.

On 1 October 2014, all six members of the Supervisory Board convened as part of a teleconference and approved the election of the Chairman and Vice-chairman of the Supervisory Board. Additionally, at this meeting the Supervisory Board established a presidential and nomination committee and an audit committee and elected their members. Additionally, the Supervisory Board passed necessary resolutions in connection with the IPO; in particular, the authority to conclude an underwriting agreement, publish the prospectus and define a price range and issue price was transferred to the presidential and nomination committee.

On the meeting held on 25 November 2014, the Supervisory Board engaged the auditor for the annual financial statements for 2014 and approved the acquisition of the property Adlergestell in Berlin, after discussing statistics such as the WALT and financing for the property. Furthermore, the Supervisory Board discussed the current course of business, i.e. portfolio developments, letting statistics and acquisitions made by the Company, as well as the corporate plan.

COMMITTEES OF THE SUPERVISORY BOARD

For the purposes of the efficient allocation of tasks, as described above, the following committees were formed to perform the tasks of the Supervisory Board effectively: (1.) Presidential and nomination committee (2.) Audit committee.

The presidential and nomination committee consists of Mr Michael Zahn (Chairman), Mr Alexander Heße and Dr Michael Bütter. This committee convened by telephone four times in 2014 and its work included the necessary resolutions in connection with the IPO; in this regard, the pricing agreement and the definition of the issue price in particular were approved by the Management Board of TLG IMMOBILIEN AG. In the meeting of the presidential and nomination committee held on 8 October 2014, the legal advisor of the Company provided information on the progress of the IPO and explained the particulars of the prospectus, the underwriting agreement and the cost-sharing agreement. In the meeting of the presidential and nomination committee held on 23 October 2014, the committee discussed matters including the ongoing book-building process and the Company's capital increase.

The audit committee consists of Mr Axel Salzmann (Chairman), Mr Michael Zahn and Ms Elisabeth Stheeman. The committee met on 25 November 2014 and, in particular, issued its recommendation to engage the auditor. The committee also discussed the quarterly report published on 30 September 2014, the insurance of the Company and the Company's property measurement methods.

The Supervisory Board received regular updates on the work of the committees.

CORPORATE GOVERNANCE

The Management and Supervisory Boards are committed to the principles of good corporate governance as set out in the recommendations of the commission "Regierungskommission Deutscher Corporate Governance Kodex". As part of preparing the reports on the 2014 financial year, the Management and Supervisory Boards first submit a declaration of compliance on behalf of TLG IMMOBILIEN AG in accordance with Section 161 of the German Stock Corporation Act (AktG). This is printed in the annual report for 2014 (see page 45) and is also published in the Investor Relations section of the website of TLG IMMOBILIEN, www.tlg.eu.

Additionally, information on the aspects of corporate governance relevant to the Supervisory Board can be found in the corporate governance report, which is available online at http://ir.tlg.de/websites/tlg/English/7100/corporate-governance-report-and-management-declaration.html.

The remuneration of the members of the Supervisory Board is set out and enumerated for each member in the remuneration report, which is printed on page 83 et seq. of the annual report.

In the 2014 financial year, the Supervisory Board addressed potential conflicts of interest on the part of its members and coordinated on how to deal with such conflicts. In the reporting year, the Supervisory Board did not detect any potential conflicts of interest on the part of a member of the Supervisory Board.

CHANGES IN THE MEMBERS OF THE SUPERVISORY BOARD

In the general meeting held on 5 September 2014, Mr Michael Zahn, Mr Alexander Heße and Dr Claus Nolting were elected to the Supervisory Board. In the general meeting held on 25 September 2014, the following people were also elected to the Supervisory Board: Ms Elisabeth Stheeman, Mr Axel Salzmann and Dr Michael Bütter.

CHANGES IN THE MEMBERS OF THE MANAGEMENT BOARD

By resolution of the Supervisory Board on 8 September 2014, Mr Peter Finkbeiner and Mr Niclas Karoff were appointed to the Management Board of TLG IMMOBILIEN AG.

AUDIT OF THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The general meeting and the Supervisory Board appointed EY Ernst & Young Wirtschaftsprüfungsgesellschaft auditor for the 2014 financial year. The Supervisory Board negotiated the audit contract, specified focal points of the audit and awarded the contract. The audit focal points were as follows:

ANNUAL FINANCIAL STATEMENTS (HGB)/CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

- Internal control system, requirements for capital market-oriented companies
- Measurement of real estate assets and associated reversals of write-downs
- IPO, accounting for the costs of the IPO
- Remuneration of the Management Board

The auditor has audited the financial statements and management report – including disclosures on accounting methods – of TLG IMMOBILIEN prepared by the Management Board as at 31 December 2014 in line with the provisions of the German Commercial Code (HGB) and given them unqualified opinions. Pursuant to Section 315a HGB, the consolidated financial statements of the Company were prepared on the basis of the International Financial Reporting Standards (IFRS) as adopted by the European Union. The auditor also gave these consolidated financial statements and the Group management report unqualified opinions. Furthermore, the auditor concluded that the Management Board has implemented a reasonable system of information and monitoring whose design and execution is capable of detecting developments that could threaten the continuation of the Company.

The auditor carried out the audit with consideration for the generally accepted accounting principles established by the German Institute of Auditors (IDW) and with consideration for the International Standards on Auditing (ISA).

The Supervisory Board meeting to discuss the annual financial statements for the 2014 financial year took place on 29 April 2015. The financial statements, consolidated financial statements, audit reports and all other templates and meeting reports were issued to, and carefully perused by, the members of the Supervisory Board in the run-up to this meeting. These documents were discussed in detail in the Supervisory Board meeting. The auditor participated in the meeting, reported on the progress of the audit and its results, and answered questions, provided additional information and engaged in discussions concerning the documents. Additionally, in this meeting the Management Board explained the financial statements of TLG IMMOBILIEN AG and the Group, as well as the risk management system.

Previously, in its meeting on 29 April 2015, the audit committee had discussed the financial statements and audit reports in detail with the auditor and subjected them to careful examination. It is of the opinion that the reports meet the statutory provisions, especially those of Sections 317 and 321 HGB. The committee reported to the Supervisory Board on the audit and recommended that it approve the financial statements and consolidated financial statements.

In the knowledge of, and with consideration for, the audit reports of the auditor, and in coordination and discussion with the auditor, the Supervisory Board examined the financial statements, consolidated financial statements and each management report and approved the outcome of the audit by the auditor. On the basis of its own audit of the financial statements, consolidated financial statements and each management report, the Supervisory Board ultimately concluded that it had no objections. In this meeting to discuss the annual financial statements, it accepted the recommendation of the audit committee and approved the financial statements and consolidated financial statements for the 2014 financial year with each management report. The financial statements for 2014 are therefore adopted (Section 172(1) AktG).

The audit committee discussed the Management Board's proposed appropriation of the net retained profits in depth, especially with consideration for the development of earnings, the budget and the interests of the shareholders. After this discussion and an internal investigation, the audit committee approved the Management Board's proposed appropriation of the net retained profits. In its meeting to discuss the statement of financial position, after carrying out an internal investigation, the entire Supervisory Board approved the Management Board's proposal to recommend to the general meeting that the net retained profits from the 2014 financial year be used to distribute a dividend of EUR 0.25 per no-par-value share.

The Supervisory Board would like to thank the members of the Management Board and all employees of the Company for their outstanding commitment, their hard work to advance the interests of the Company and for the extraordinary success they achieved in the 2014 financial year.

Berlin, 29 April 2015
For the Supervisory Board

Michael Zahn
Chairman of the Supervisory Board

THE SUN IS RISING IN THE EAST.

BERLIN IS NUMBER ONE FOR INVESTORS

In the recent report and investment barometer "Emerging Trends in Real Estate Europe 2015", more than 500 international property experts (investors, developers, financial service providers and brokers) consider Berlin to be the most in-demand location for property investments in Europe at the moment. In total, 70% of the surveyed investors expect even more capital to flow into European property markets.

WE SEIZE OPPORTUNITIES WHEN THEY ARISE.

STRONG FOUNDATIONS

As a leading commercial property specialist in Berlin and the regional economic centres of Dresden, Leipzig and Rostock, TLG IMMOBILIEN AG has established a clear position for itself. The portfolio of high-quality properties has been measured at approximately EUR 1.5 bn (fair value as at 31 December 2014) and it generates a stable cash flow from management. The solid basis of the company is reflected by an average remaining term of 7.6 years for rental agreements in the core portfolio and the low vacancy rate of 3.2% as at late December 2014. The conservative finance model envisages a net debt-to-equity ratio of between 45 and 50% and is benefiting from a current average interest rate of under three percent (end of 2014: 40%). TLG IMMOBILIEN received approximately EUR 100 mn in gross proceeds from the flotation on 24 October 2014. The company continues to generate proceeds from the sale of properties that do not belong to the core portfolio.

LOW VACANCY RATE IN THE CORE PORTFOLIO

3.2%

Given these outstanding conditions, the business model of the company is aimed squarely at portfolio growth through additional acquisitions. The corporate platform was successfully enhanced in 2013 and 2014 and it will facilitate the rapid integration of recently acquired properties in the core regions with only marginal additional administrative costs.

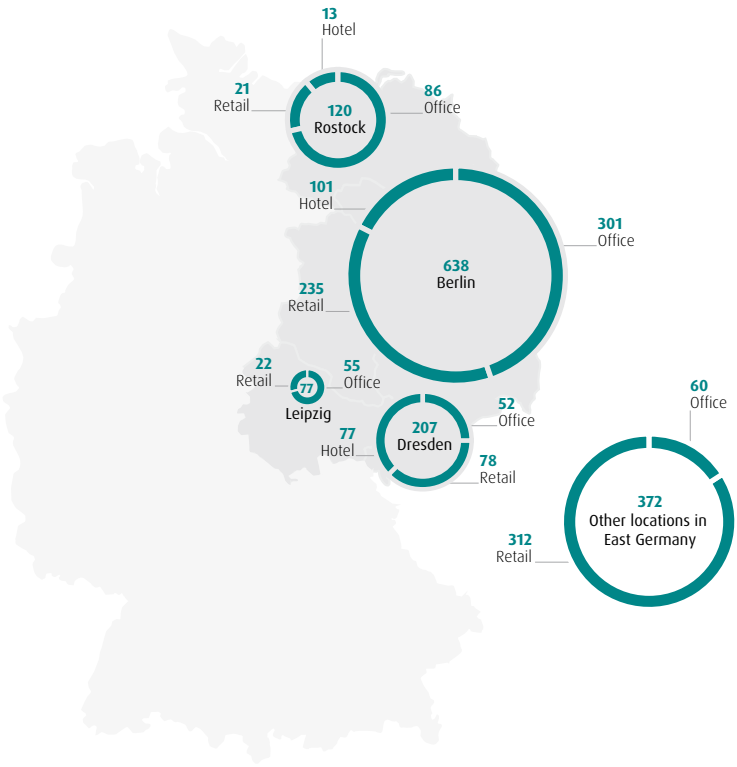
ATTRACTIVE MARKETS WITH POTENTIAL AND DYNAMISM

As an active portfolio manager, TLG IMMOBILIEN focuses on Berlin, its surrounding areas and the high-growth East German regions on the Baltic coast and in the core regions in central Germany.

The core portfolio contains office and retail properties in Berlin, Dresden, Leipzig and Rostock. It also consists of retail properties in highly frequented micro-locations in East Germany. The company also owns five hotels in Berlin, Dresden and Rostock.

Core portfolio: regional distribution of portfolio properties by asset class (fair value) as at 31 December 2014

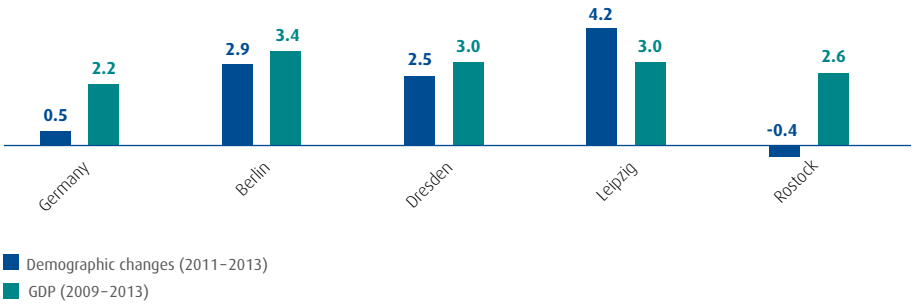
in EUR mn



These locations are characterised by growth and their positive dynamics. As a result, the local GDP and population counts in cities such as Dresden, Leipzig and Rostock have always experienced positive growth.

Demographic changes and GDP by city

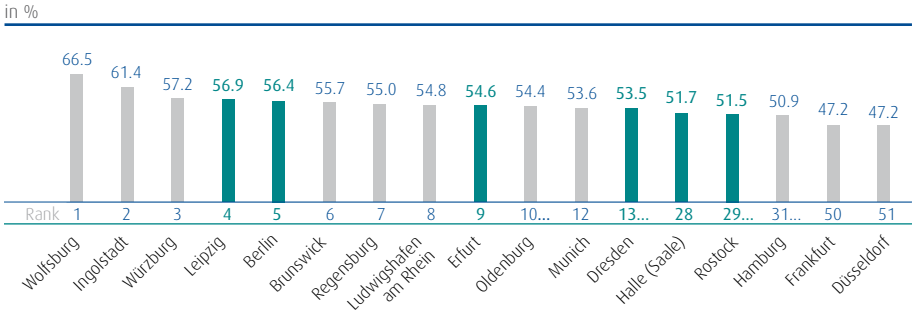
in %



Source: Federal Statistical Office, Regional Statistical Offices

Additionally, all of the main investment locations of TLG IMMOBILIEN are amongst the 30 most dynamic cities in Germany, not least due to their well-developed infrastructures and positive economic development. The rankings, compiled by the Cologne Institute for Economic Research, factor in the economic and social development of independent cities in Germany with over 100,000 residents. The main investment locations of TLG IMMOBILIEN are ranked higher than other economically strong regions such as Hamburg, Frankfurt and Düsseldorf.

Points in the dynamism rankings 2014



Source: 2014 city rankings of ImmobilienScout24, WirtschaftsWoche, IW Consult; dynamic ranking

With a special focus on the indicators of the real estate markets, we can conclude that the major locations of TLG IMMOBILIEN outside of Berlin, i.e. Dresden, Leipzig and Rostock have even more potential to increase in value. In particular, the long-standing differences in rates of return point towards the additional potential for the cities in East Germany to increase in value. This will lead to increased investor interest in our core regions and has already had a positive effect on the volume of transactions on the local office and retail property markets. Overall, the five East German states registered increased investment in commercial properties between 2009 and 2012: according to statistics collected by Savills, the volume of investment increased in this period from approximately EUR 350 mn to EUR 1.57 bn. After a slight decline to EUR 1.36 bn in 2013, the volume reached EUR 1.33 bn within the first six months of 2014 alone. Ultimately, the volume of investment reached EUR 2.7 bn by the end of 2014.

Besides Berlin, where investment turnover on the commercial property market grew by approximately 19% between 2013 and 2014, significant East German commercial property markets such as Leipzig experienced increased demand.

BERLIN IS NUMBER ONE FOR INVESTORS

The positive dynamics in the development of investment turnover aside, in 2015 Berlin remains one of the most promising locations for property investments. In the recent report and investment barometer "Emerging Trends in Real Estate Europe 2015", published by the Urban Land Institute (ULI) in collaboration with the consultancy firm PwC, more than 500 international property experts (investors, developers, financial service providers and brokers) consider Berlin to be the most popular location for property investments in Europe at the moment.

Whereas last year's highest-ranked city, Munich, dropped out of the top ten due to its high real estate prices, Berlin jumped to the top of the rankings (previous year: fourth place). In total, 70% of the surveyed investors expect even more capital to flow into European property markets. Berlin and the growth centres in East Germany therefore have favourable prospects for the future.

Investment turnover

in EUR mn

Over EUR 4.2 bn was invested in commercial real estate in Berlin in 2014.

Office turnover in Leipzig has more than quintupled since 2012.

Source: BNP Paribas Real Estate 2014

SEIZING OPPORTUNITIES WHEN THEY ARISE

Given the positive corporate situation and local conditions, TLG IMMOBILIEN remains interested in expanding its real estate portfolio in its core regions. In particular, the company will focus on the acquisition of office properties in Berlin, Dresden, Leipzig and Rostock, as well as on the acquisition of retail properties and portfolios in excellent micro-locations.

The leading market position and strong, well-established network of TLG IMMOBILIEN in the growth regions in East Germany facilitate close working relationships with a number of local private and institutional market participants. TLG IMMOBILIEN is therefore effective at recognising investment opportunities as they arise, reliably assessing them and rapidly integrating new properties with marginal additional administrative costs thanks to its integrated business model.

In the 2014 financial year, TLG IMMOBILIEN acquired office properties and a retail park in Berlin and one office property in Leipzig.

ACQUISITIONS OF OFFICE PROPERTIES AND A RETAIL PARK

BERLIN

LEIPZIG

BERLIN

BERLIN

	BERLIN	LEIPZIG	BERLIN	BERLIN
Transfer of benefits and encumbrances	February 2014	September 2014	October 2014	February 2015
Name	Spreétage	Forum am Brühl	Köpenicker Strasse	Adlergestell [1]
Type	Office properties	Office properties	Office properties	Retail park
Purchase price including incidental acquisition costs (in EUR mn)	20.1	49.4	23.0	33.0
Annualised in-place rent (excluding bills) (in EUR mn)	1.4	3.2	1.5	3.0
Return on rent (in %)	7.0	6.3	6.5	9.1
WALT (in years)	4.0	5.0	5.9	6.0

[1] Date: 27.11.2014 (signed)

PROVIDING ROOM FOR GROWTH.

NEW MEDIA IN THE HEART OF THE CAPITAL

Since November 2011, freenet digital has been the tenant of TLG IMMOBILIEN AG at Karl-Liebknecht-Strasse 32 in Berlin. The subsidiary of freenet AG is active on the mobile phone applications market, which has exploded with growth.

Stefan Kerber
Vice President – Business Services
freenet digital GmbH

WE GO WHERE THINGS ARE ON THE MOVE.

DYNAMIC IN THE BEST LOCATIONS

All the signs in the major office markets in East Germany are pointing towards growth. In Berlin, office employment has been increasing steadily since 2008 and vacancy rates have been falling.

Study
"Property Markets in Berlin and East Germany 2014"

Like Berlin, the other major cities in East Germany are experiencing positive developments on the office markets resulting from increasing office employment. This applies to the growth centres of Leipzig and Dresden in Saxony in particular, but also to Rostock in Mecklenburg-West Pomerania. These three cities are also experiencing falling office vacancy rates and growing employment numbers in this sector.

AVERAGE OFFICE RENT DEVELOPMENT IN BERLIN

+7.3%

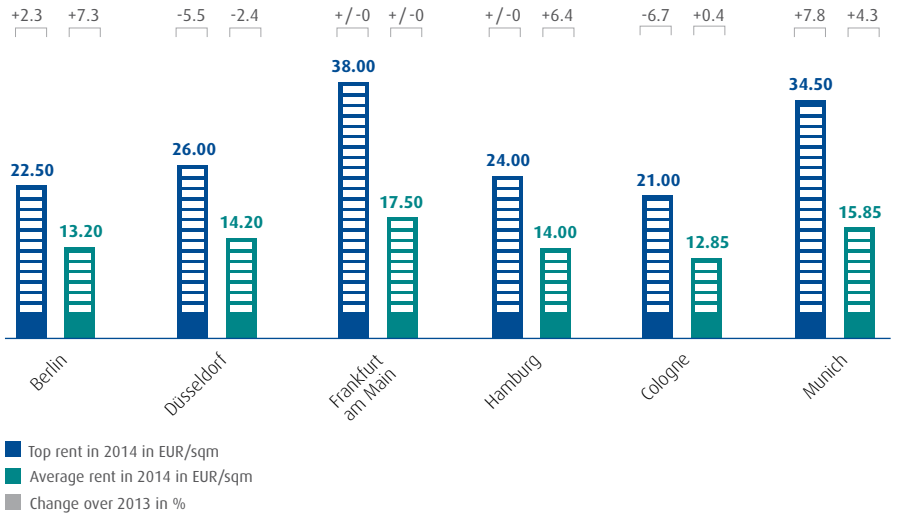
Development of vacancy rates | employment

	BERLIN	DRESDEN	LEIPZIG	ROSTOCK
Number of office employees (2013)	682,990	107,951	103,502	38,379
Change in number of office employees (2012–2013) in %	1.9	1.4	1.5	0.4
Office vacancy rate in %	5.5	9.9	15.8	7.8
Vacancy rate development (2011–2013) in pp	-1.5	-0.7	-2.9	-0.4
Office area in portfolio (2013) in sqm	18,633,151	2,704,938	2,788,547	982,877
Change in office area in portfolio (2011–2013) in %	1.0	0.5	0.5	0.7

Source: bulwiengesa 2014

In 2014, TLG IMMOBILIEN added to its office property portfolio with acquisitions as well as new and renewed rental agreements at adjusted market rents. The portfolio is mainly characterised by well-known tenants from the public sphere and private business world.

Berlin with above-average rent development



Source: Savills Research 2015

THE TOP 10 OFFICE PROPERTIES REPRESENT 74% OF THE FAIR VALUE OF THE CORE OFFICE PROPERTY PORTFOLIO

1

BERLIN
Alexanderstrasse 1, 3, 5

Fair Value:
62,023 EUR k
Total lettable area:
43,441 sqm
Annualised in-place rent (excluding bills):
4,056 EUR k
EPRA Vacancy Rate:
25.7%
WALT:
3.4 Years

2

BERLIN
Schönhauser Allee 36 | Ecke Sredzki- und Knaakstrasse 97

Fair Value:
55,768 EUR k
Total lettable area:
31,371 sqm
Annualised in-place rent (excluding bills):
3,676 EUR k
EPRA Vacancy Rate:
0.3%
WALT:
5.0 Years

3

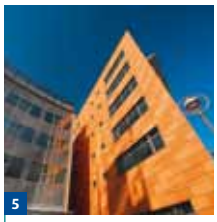
BERLIN
Englische Strasse 27, 28, 30

Fair Value:
55,500 EUR k
Total lettable area:
17,815 sqm
Annualised in-place rent (excluding bills):
4,456 EUR k
EPRA Vacancy Rate:
0.0%
WALT:
4.8 Years

4

LEIPZIG
Richard-Wagner-Strasse 1–3 | Brühl 65, 67

Fair Value:
51,000 EUR k
Total lettable area:
26,519 sqm
Annualised in-place rent (excluding bills):
3,191 EUR k
EPRA Vacancy Rate:
5.6%
WALT:
5.0 Years



5

ROSTOCK
Am Vögenteich 23

Fair Value:
47,100 EUR k
Total lettable area:
19,470 sqm
Annualised in-place rent (excluding bills):
3,120 EUR k
EPRA Vacancy Rate:
0.0%
WALT:
17.9 Years

6

BERLIN
Karl-Liebknecht-Strasse 31, 33 | Kleine Alexanderstrasse

Fair Value:
43,943 EUR k
Total lettable area:
24,449 sqm
Annualised in-place rent (excluding bills):
3,022 EUR k
EPRA Vacancy Rate:
1.1%
WALT:
4.7 Years

7

DRESDEN
Postplatz 1 | Wildsruffer Strasse 24

Fair Value:
29,900 EUR k
Total lettable area:
10,537 sqm
Annualised in-place rent (excluding bills):
1,980 EUR k
EPRA Vacancy Rate:
0.2%
WALT:
2.2 Years

8

BERLIN
Köpenicker Strasse 30–31 | Bona-Peiser-Weg 2

Fair Value:
23,200 EUR k
Total lettable area:
12,156 sqm
Annualised in-place rent (excluding bills):
1,512 EUR k
EPRA Vacancy Rate:
1.7%
WALT:
5.9 Years

9

BERLIN
Kaiserin-Augusta-Allee 104–106

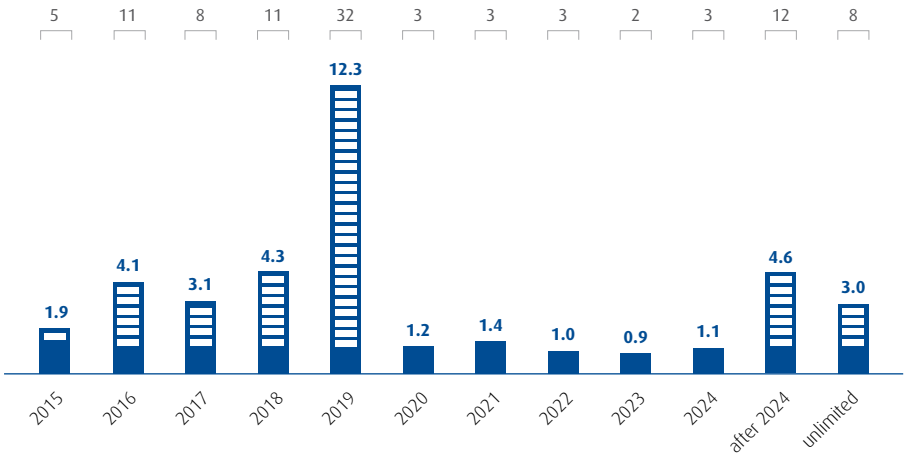
Fair Value:
19,490 EUR k
Total lettable area:
14,828 sqm
Annualised in-place rent (excluding bills):
1,368 EUR k
EPRA Vacancy Rate:
11.2%
WALT:
4.0 Years

10

BERLIN
Hausvogteiplatz 12

Fair Value:
19,391 EUR k
Total lettable area:
8,204 sqm
Annualised in-place rent (excluding bills):
446 EUR k
EPRA Vacancy Rate:
17.9%
WALT:
2.4 Years

Remaining terms of rental agreements in the core office portfolio



Annualised in-place rent (excluding bills) for the core office portfolio in EUR mn
Proportion of annualised in-place rent (excluding bills) in the core office portfolio in %

Source: TLG IMMOBILIEN AG as at 31.12.2014

TOP 7 OFFICE PROPERTY TENANTS

1. Daimler Real Estate GmbH
2. OstseeSparkasse Rostock
3. Bundesanstalt für Immobilienaufgaben
4. SAP Deutschland SE & Co. KG
5. Free State of Thuringia
6. Deutsche Bahn AG
7. Capital city of Dresden

ACQUISITION OF OFFICE PROPERTY

SPREÉTAGE | BERLIN-MITTE/TIERGARTEN

Kaiserin-Augusta-Allee 104–106
Situated on the waterfront at a bend in the Spree river, the Spreétage office building boasts an excellent location, high-quality furnishings and attractive room layouts. A spacious roof terrace provides views of the city. With a central location in the eastern part of Tiergarten in the central district of Berlin-Mitte, close to the Regierungsviertel district, the building was constructed in 1995 and 1996.

Facts and figures

Land area	4,332 sqm
Lettable area	14,828 sqm
Purchase price including incidental acquisition costs	EUR 20.1 mn
Annualised in-place rent (excluding bills)	EUR 1.4 mn
Return on rent	7.0%
WALT	4.0 years
EPRA Vacancy Rate	11.2%
Anchor tenants	VHV Holding AG, Media Broadcast GmbH, Samuelson Unternehmensberatung und Software-Entwicklung GmbH
Parking spaces	144 in the underground car park
Year of construction	1995–1996

The building consists of three sections whose natural stone and glass façades curve towards the Spree river. This high-quality ensemble is rounded off by the building's impressive entrance hall with a two-storey foyer and underground car park. The current tenancy rate is 89%.

FORUM AM BRÜHL | LEIPZIG

Richard-Wagner-Strasse 1–3 | Brühl 65, 67

The best location in the city centre – situated directly between Leipzig main station and the main shopping street, this remarkable office building with corner towers, built in 1996/97, provides modern comfort and consists of two building complexes. The ground floor of the building features a walkway with shops underneath up to seven floors of offices.

Facts and figures

Land area	7,855 sqm
Lettable area	26,519 sqm
Purchase price including incidental acquisition costs	EUR 49.4 mn
Annualised in-place rent (excluding bills)	EUR 3.2 mn
Return on rent	6.3%
WALT	5.0 years
EPRA Vacancy Rate	5.6% [1]
Anchor tenants	Deutsche Bahn AG, apoBank Deutsche Apotheker- und Ärztebank eG, SBK Siemens Betriebskrankenkasse
Parking spaces	222
Year of construction	1996–1997

[1] 1.4% with consideration for the new rental contracts concluded in 2014 and commencing on 1.1.2015

The ensemble includes parking spaces at ground level for everyday customer traffic and an underground car park for the tenants. The property is almost now fully let.

KÖPENICKER STRASSE | BERLIN-MITTE

Köpenicker Strasse 30–31

This property, built in 2004, is situated in the heart of Berlin and in the immediate vicinity of the Spree river. This purely office property features eight storeys and was designed to be a low-energy building of high technical quality. The property includes 21 underground parking spaces; Berlin Ostbahnhof, the regional and intercity railway station, is also within walking distance.

Daten und Fakten

Land area	2,746 sqm
Lettable area	12,156 sqm
Purchase price including incidental acquisition costs	EUR 23.0 mn
Annualised in-place rent (excluding bills)	EUR 1.5 mn
Return on rent	6.5%
WALT	5.9 years
EPRA Vacancy Rate	1.7%
Anchor tenants	ver.di Berlin-Brandenburg, Deutsche Bahn AG, ver.di National Administration
Parking spaces	21 in the underground car park
Year of construction	2004

The development of the surrounding areas in the neighbouring city districts is currently progressing rapidly. The vacancy rate of approximately 12% as at the date of acquisition has already been reduced to under 2%.

LOCATION? EXCELLENT!

AT THE CLIENT'S DOOR

The modern supermarket "Kaiser's" in Frankfurter Allee 144, Berlin, has been part of a development project of TLG IMMOBILIEN from 2013. The property is located in an established residential district, much to the advantage of the retail company and the local residents.

Jutta Eichhorn
Manager
Kaiser's Tengelmann GmbH

WE ARE NEARBY.

ALWAYS WELL STOCKED

The retail property market in Berlin is square in the crosshairs of international and even expansive national retailers. No other German city has as many excellent retail locations as Berlin.

Even though Dresden and Leipzig consistently register rent increases in the larger retail space segment, prices in the other major East German cities are remaining almost entirely stable. This development is compounded by thoroughly positive developments in retail purchasing power and retail turnover in the previous two years. Even tourists represent an important consumer group for retailers in Berlin, Dresden and Rostock, for example.

Study "Property Markets in Berlin and East Germany 2014"

Development of key retail statistics

	Retail purchasing power per inhabitant (2013) in EUR	Change in retail purchasing power per inhabitant (2011–2013) in %	Retail turnover per inhabitant (2013) in EUR	Change in retail purchasing power per inhabitant (2011–2013) in %	Retail centrality (2014) in %
Berlin	5,310	5.2	5,115	0.8	107.8
Dresden	5,269	4.1	5,252	1.9	110.1
Leipzig	5,010	5.1	4,788	1.4	103.3
Rostock	5,115	4.3	4,753	1.8	102.0

Source: GfK GeoMarketing 2014, IFH Retail Consultants 2014

Development of average food retail rents

in EUR/sqm	2000–2004	2005–2009	2010–2014	2010–2014
New German states	**9.40**	**9.80**	**10.60**	**9.90**
Discounters (food)	9.50	9.50	10.20	9.60
Supermarkets	8.70	9.10	14.60	10.10
Convenience stores/ cash & carry	9.20	11.00	10.50	10.70
Old German states	**10.20**	**11.40**	**12.90**	**11.40**
Discounters (food)	10.00	12.00	11.60	11.30
Supermarkets	9.30	9.50	17.00	11.20
Convenience stores/ cash & carry	10.40	11.00	12.80	11.50
Total	**9.70**	**10.70**	**12.30**	**10.80**

Source: bulwiengesa AG, convenience stores in Germany 2014

CHANGE IN RETAIL PURCHASING POWER

+1.9%

PER INHABITANT (2011–2013) IN DRESDEN)

In the 2014 financial year, TLG IMMOBILIEN added to its retail property portfolio with one acquisition as well as new and renewed rental contracts at adjusted market rents. The main tenants in the portfolio are well-known retail chains.

THE TOP 10 RETAIL PROPERTIES REPRESENT 23% OF THE FAIR VALUE OF THE CORE RETAIL PROPERTY PORTFOLIO

STRALSUND
Ossenreyerstrasse 53–61, Badenstrasse 3–6, Kleinschmiedstrasse

Fair Value:
27,762 EUR k
Total lettable area:
10,805 sqm
Annualised in-place rent (excluding bills):
1,788 EUR k
EPRA Vacancy Rate:
12.2%
WALT:
9.3 Years

BERLIN
An der Ostbahn 3 | Strasse der Pariser Kommune 10–16

Fair Value:
23,300 EUR k
Total lettable area:
17,883 sqm
Annualised in-place rent (excluding bills):
1,666 EUR k
EPRA Vacancy Rate:
0.0%
WALT:
8.7 Years

BERLIN
Bölschestrasse 37–38

Fair Value:
15,441 EUR k
Total lettable area:
8,498 sqm
Annualised in-place rent (excluding bills):
1,036 EUR k
EPRA Vacancy Rate:
0.0%
WALT:
15.3 Years

BERLIN
Salvador-Allende-Strasse 115

Fair Value:
15,300 EUR k
Total lettable area:
13,950 sqm
Annualised in-place rent (excluding bills):
1,232 EUR k
EPRA Vacancy Rate:
0.0%
WALT:
11.0 Years

BERLIN
Rathausstrasse 1

Fair Value:
14,400 EUR k
Total lettable area:
10,842 sqm
Annualised in-place rent (excluding bills):
1,152 EUR k
EPRA Vacancy Rate:
0.0%
WALT:
3.9 Years

BERLIN
Ellen-Epstein-Strasse 1

Fair Value:
13,700 EUR k
Total lettable area:
9,320 sqm
Annualised in-place rent (excluding bills):
1,083 EUR k
EPRA Vacancy Rate:
0.0%
WALT:
10.8 Years

BERLIN
Helene-Weigel-Platz 1,2

Fair Value:
12,598 EUR k
Total lettable area:
6,021 sqm
Annualised in-place rent (excluding bills):
918 EUR k
EPRA Vacancy Rate:
0.0%
WALT:
6.6 Years

BERLIN
Landsberger Strasse 4, 6, 7, 8 | Alt-Mahlsdorf 41, 44, 46

Fair Value:
12,271 EUR k
Total lettable area:
17,322 sqm
Annualised in-place rent (excluding bills):
915 EUR k
EPRA Vacancy Rate:
8.2%
WALT:
5.3 Years

DRESDEN
Prager Strasse 4

Fair Value:
12,000 EUR k
Total lettable area:
2,751 sqm
Annualised in-place rent (excluding bills):
678 EUR k
EPRA Vacancy Rate:
0.0%
WALT:
1.8 Years

BERLIN
Revaler Strasse 2 | behind Marchlewskistrasse 101

Fair Value:
9,900 EUR k
Total lettable area:
3,978 sqm
Annualised in-place rent (excluding bills):
286 EUR k
EPRA Vacancy Rate:
0.0%
WALT:
8.0 Years

E-CENTER | HALLE |
Merseburger Strasse 40
(Portfolio property)

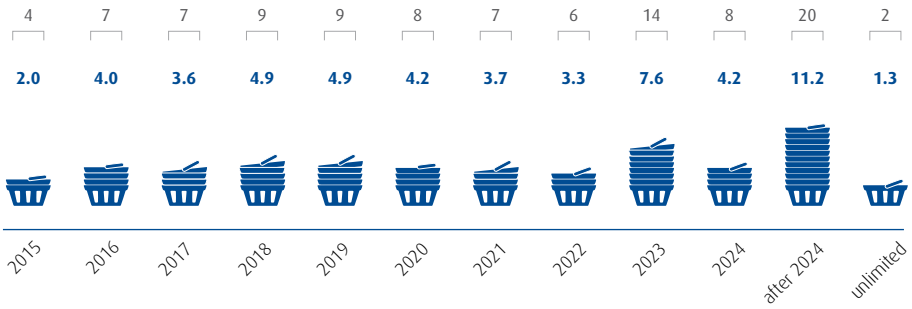
The building was completed in 2011 and, with its integrated shopping centre, features an attractive mix of tenants including an E-Center (right), a pharmacy, a newsagent, a flower shop, a hairdresser and three restaurants. The listed façade (left) was retained and integrated into the new ensemble.

Clustering of the core retail portfolio (Fair Value)

in EUR k

The list of the top 10 retail properties can be found on page 29.

Development of remaining terms of rental agreements in the core retail portfolio



Annualised in-place rent (excluding bills) for the core retail portfolio in EUR mn
Proportion of annualised in-place rent (excluding bills) in the core retail portfolio in %

Source: TLG IMMOBILIEN AG as at 31.12.2014

TOP 7 RETAIL PROPERTY TENANTS

1. Netto Markendiscount AG & Co. KG
2. REWE Markt GmbH
3. Hellweg Die Profibaumärkte GmbH & Co. KG
4. Penny-Markt GmbH
5. EDEKA-Gruppe
6. Kaiser's Tengelmann GmbH
7. Lidl Vertriebs-GmbH & Co. KG

RETAIL ACQUISITIONS

ADLERGESTELL | BERLIN

Adlergestell 296, 299–305

The retail park, completed in 2006, is located on the Adlergestell in Berlin, an important route between Alexanderplatz and the new Berlin Brandenburg Airport to the south-east. The DIY chain OBI and the furniture store Poco Domäne are anchor tenants.

Facts and figures

Land area	43,639 sqm
Lettable area	28,350 sqm
Purchase price including incidental acquisition costs	EUR 33.0 mn
Annualised in-place rent (excluding bills)	EUR 3.0 mn
Return on rent	9.1%
WALT	6.0 years
EPRA Vacancy Rate	0.0%
Anchor tenants	OBI, Poco Domäne
Parking spaces	542
Year of construction	2005–2006

Date: 27.11.2014 (signed)

The local food suppliers ALDI and LIDL are directly adjacent to the area. The acquired land includes 542 parking spaces for cars. The property is fully let.

REAL ESTATE EXPERTISE WITH A STAR RATING.

PROPERTIES WITH THE COMFORT FACTOR

The 4-star-plus "Hotel de Saxe", located at Neumarkt in Dresden, was completed in 2006 and purchased by TLG IMMOBILIEN. Ever since, it has been successfully operated by Steigenberger Hotels AG.

Heidrun Waschhausen
General Manager
Steigenberger Hotel de Saxe

WE OFFER OUR CUSTOMERS EXCELLENT SERVICE.

POSITIVE DEVELOPMENTS IN THE EAST

The number of overnight stays in Berlin has been breaking record after record for years. In 2013, the capital city registered 26.9 mn overnight stays, putting it in third place in Europe behind London and Paris. The chances are good that 2014 will see a new annual record, too. From January to November 2014 alone, the number of overnight stays in Berlin totalled approximately 26.5 mn – an increase of 6.2% over the same period in the previous year. Investitionsbank Berlin expects the number of overnight stays per year to hit 30 mn by as early as 2016. Key hotel statistics and utilisation increased in the past few years, yet these are still lower than in the other major western German cities. However, this has done nothing to slow construction work. Numerous projects are in the pipeline.

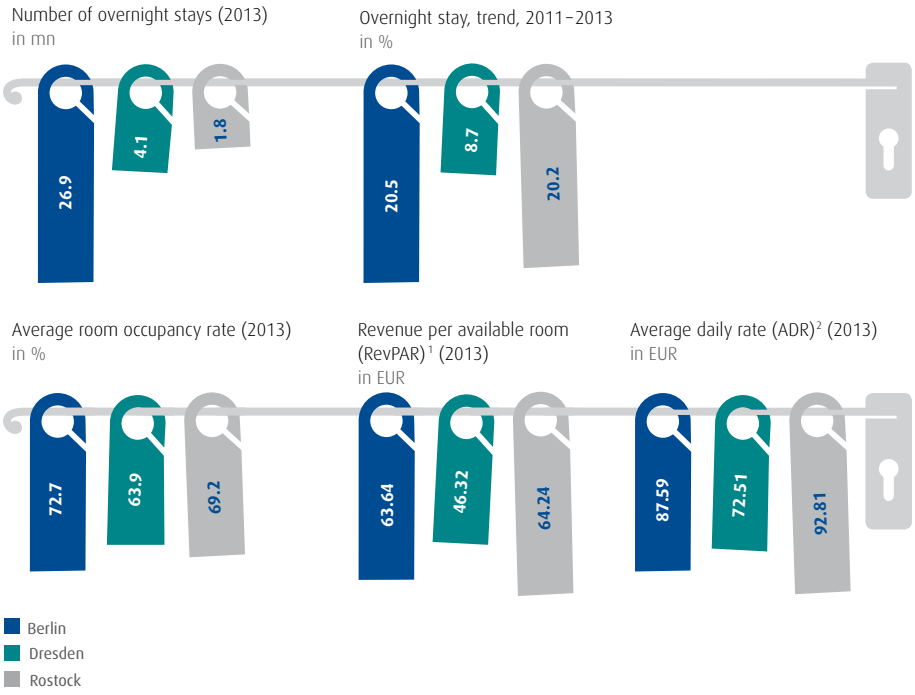
The hotel sector also experienced positive developments in cities such as Dresden and Rostock. All key hotel statistics have been on the increase recently. For example, in previous years Rostock was able to reach the same number of overnight stays as Berlin, for example, or even surpass it in terms of revenue per available room (RevPAR).

NUMBER OF OVERNIGHT STAYS

26.9 MN

IN BERLIN (2013)

Overview of hotel markets



[1] RevPAR = Revenue per available room
[2] ADR = Average Daily Rate
Source: Statistic regional offices, STR Global 2014

HOTEL TENANTS

1. THR Hotel (Ramada, H_2 Hotel)
2. Steigenberger Hotels AG
3. Motel One Germany Betriebs GmbH
4. Winters Hotel The Wall GmbH

INVESTING WITH A SENSE OF PERSPECTIVE

Over the past few years, TLG IMMOBILIEN has made targeted investments in new hotel properties. The five hotels belonging to TLG IMMOBILIEN are located in Berlin, Dresden and Rostock, and are distinguished by their excellent micro-locations and extremely long-term rental/lease agreements with experienced operators.

HOTEL PORTFOLIO IN DETAIL

BERLIN

BERLIN

DRESDEN

DRESDEN

ROSTOCK

	BERLIN	BERLIN	DRESDEN	DRESDEN	ROSTOCK
Address	Karl-Liebknecht-Strasse 32	Zimmerstrasse 88–89	Neumarkt 9	Postplatz 5, 6 | Schweriner Strasse 1	Schröderplatz 25
Operator	THR Hotel (Ramada, H_2 Hotel)	Winters Hotel	Steigenberger "Hotel de Saxe"	Motel One	Motel One
Fair Value (in EUR mn)	86.969	14.408	41.700	35.125	13.212
Annualised in-place rent (excluding bills), (in EUR mn)	6.052	0.901	2.560	2.059	0.876
EPRA Vacancy Rate (in %)	0.0	0.0	0.0	6.5	0.0
WALT (in years)	13.9	18.1	18.8	16.6	20.4
Hotel rooms	625	145/25	185	288	180

TLG IMMOBILIEN SHARES

Overall, the 2014 market year was volatile. The DAX ended the year with growth of 2.2%, yet its performance was weaker than in the previous year. The index was extremely volatile due to several geopolitical crises, the subdued economic situation in Europe and the conflicting monetary policies of the European Central Bank (ECB).

Having reached a new all-time high and hitting 10,000 points for the first time in its history following another package of measures implemented by the ECB in summer, the recovery of the economic indicators in the USA and strong M&A business, the DAX index hit its all-year low in autumn and fell to under 8,400 points in mid-October, driven by poor economic and inflation data from Europe and weak job market data from the USA. Stock markets jumped again near the end of the year after the ECB announced that it would implement its controversial asset purchase programme in 2015 and lower the increase rates to a record low of 0.05%.

Real estate shares performed in a similar way, although favourable finance rates are providing most of the companies in the sector with positive fundamental data which in turn will improve share prices. As a result, the real estate indices EPRA Developed Europe and EPRA Germany grew by 21.1% and 40.6%, respectively, during the year and ended the year on 1934.02 and 752.88 points, respectively. Whereas in the first half of the year the European and German indices experienced similar growth of 11.8% and 14.7%, respectively, in the second half of the year the German index grew by a significant 22.6% compared to just 8.3% for the European index.

On 24 October 2014, TLG IMMOBILIEN AG joined the market in the midst of what was certainly the most challenging stock market environment in 2014. Nevertheless, with an issue price of EUR 10.75, the shares performed well on the capital market. With a closing price of EUR 12.47 on 31 December 2014, the price of the shares increased by 16.0% since being issued. The performance of the shares of TLG IMMOBILIEN AG therefore matched that of the EPRA Germany Index (performance from 24 October 2014 to the end of the year: +16.0%) and surpassed the SDAX (performance from 24 October 2014 to the end of the year: +9.9%).

By 31 October 2014, the European Public Real Estate Association (EPRA) had added TLG IMMOBILIEN to eight indices of the FTSE EPRA/NAREIT Global Real Estate Index Series by means of fast-track entry.

IPO

After the successful organisation and financial reorientation of the company over the past 24 months, the flotation represented the next crucial step for TLG IMMOBILIEN towards implementing its growth strategy.

As part of the book-building process, institutional investors were offered a total of 36,850,000 shares ranging in price from EUR 10.75 to EUR 13.75 per share from 15 October to 23 October 2014. The issuing volume consisted of 9,302,326 new shares from a capital increase, 24,197,674 shares from the portfolio of the existing shareholders and an additional over-allotment option of up to 3,350,000 existing bearer shares from the portfolio of the former sole shareholder Lone Star. Ultimately, 1,415,234 shares were issued as part of this option.

TLG IMMOBILIEN received approximately EUR 100 mn in gross proceeds from the issuance of the new shares. In line with the corporate strategy, these proceeds will be used to finance value-boosting acquisitions to expand the company's office and retail portfolio in the core regions and to make investments in its core portfolio.

TLG IMMOBILIEN share data

ISIN/WKN	DE000A12B8Z4/A12B8Z
Ticker symbol	TLG
Share capital in EUR	61,302,326.00
Number of shares (no-par-value bearer shares)	61,302,326
Indices (selection)	SDAX, EPRA/NAREIT Global Index, EPRA/NAREIT Europe Index, EPRA/NAREIT Germany Index
Sector / sub-sector	Real estate
Market segment	Regulated market (Prime Standard)
Designated sponsors	Commerzbank AG, HSBC Trinkaus & Burkhardt AG, J.P. Morgan Securities plc
Closing price on 31.12.2014 (XETRA) in EUR	12.47
Market capitalisation in EUR mn	764.4

Key flotation figures

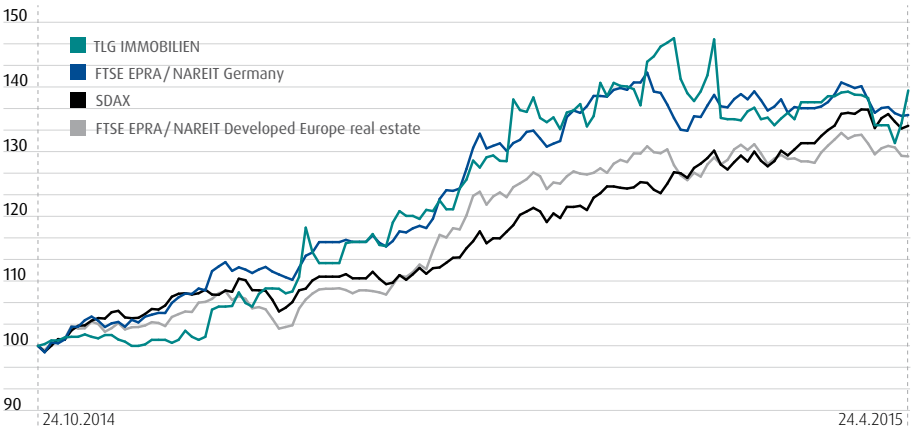
Subscription period	15.10.2014–23.10.2014
First trading day	24.10.2014
Book-building range in EUR	10.75–13.75
Issue price in EUR	10.75
First market price in EUR	10.88
Leading underwriters	J.P. Morgan, UBS Investment Bank
Consortium	Joint global coordinators & joint bookrunners: J.P. Morgan, UBS Investment Bank Joint bookrunners: Commerzbank AG, Kempen & Co, HSBC

ADMISSION TO THE SDAX

On 19 February 2015, after just 4 months of being listed on the stock exchange, the German Stock Exchange unexpectedly decided to admit TLG IMMOBILIEN AG to the SDAX as at 24 February 2015. Its admission to this index not only demonstrates that the company meets the high transparency requirements of the Prime Standard, but that its market capitalisation and liquidity are suitable even for larger commitments by institutional investors.

Performance of shares compared by index

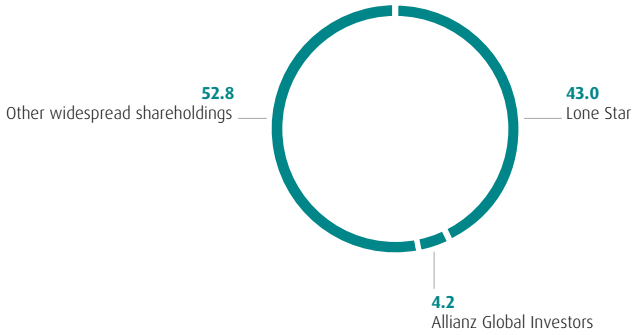
in %



By the time this report was published on 30 April 2015, the share price (XETRA) had increased intermittently to EUR 15.99 per share (5.3.2015), which represents an increase of 28.2% in comparison with 31 December 2014 (EUR 12.47) and an increase of 48.7% in comparison with the original issue price of EUR 10.75.

Shareholder structure as at 31 December 2014

in %



Shareholdings according to latest voting rights notifications.

As at 31 December 2014, there were 61,302,326 shares of TLG IMMOBILIEN AG outstanding. After the flotation of the company, with a 43.0% stake LSREF II East AcquiCo S.à r.l. (Lone Star) remains a major shareholder in TLG IMMOBILIEN. The remaining 57.0% is held mainly by various institutional investors. With 4.2% of the shares, Allianz Global Investors had passed the 3.0% reporting threshold as at the reporting date.

Coverage by analysts

Bank	Target price (in EUR)	Rating	Analyst	Date
UBS	15.50	Buy	Osmaan Malik	21 April 2015
HSBC	18.80	Overweight	Thomas Martin	13 April 2015
Kempen & Co	16.00	Overweight	Remco Simon	31 March 2015
J.P. Morgan	15.00	Neutral	Tim Leckie	9 March 2015
Commerzbank	17.50	Buy	Thomas Rothäusler	2 March 2015

Analysts at all IPO banks have begun to cover the shares and rate them and the underlying yield potential of the company as thoroughly positive.

INVESTOR RELATIONS MEASURES LAUNCHED

In the first few months of 2015 the company took part in the following national and international banking conferences:

- J.P. Morgan – European Real Estate CEO Conference, London
- UniCredit Kepler Chevreux – German Corporate Conference 2015, Frankfurt am Main
- Kempen & Co – European Property Seminar, New York
- HSBC Real Estate Conference 2015, Frankfurt am Main

The Management Board introduced the company and outlined the company's strategy and potential for future development during in-depth discussions with current shareholders and potential investors.

The 9-month report for 2014 was released on 30 November 2014 and the preliminary figures for 2014 were published on 2 March 2015. The Management Board took questions from investors and media representatives in teleconferences. We publish our quarterly and annual reports, the latest information about our company, ad-hoc and corporate news articles, voting rights announcements and directors' dealings in the Investor Relations section of our website, www.tlg.eu. This section also contains a price chart for TLG IMMOBILIEN shares. Likewise, this section provides information on the company's share-holding structure and important share-related information.

EPRA KEY FIGURES

The European Public Real Estate Association (EPRA) is a not-for-profit organisation based in Brussels. It represents the interests of listed real estate companies in Europe and is committed to consistent, transparent financial reporting.

TLG IMMOBILIEN AG has been a member of EPRA since November 2014 and, along with its first annual report as a listed company, published the most important key figures in line with the reporting standards recommended by EPRA (its Best Practices Recommendations) for the sake of transparency and comparability.

Overview of key EPRA figures

in EUR k	1.1.2014–31.12.2014	1.1.2013–31.12.2013	Change	Change in %
EPRA Earnings	50,052	52,906	-2,854	-5.4
EPRA NAV	914,008	913,533	476	0.1
EPRA NNNAV	699,941	795,918	-95,977	-12.1
EPRA Net Initial Yield (NIY) in %	6.6	6.6	0.0	
EPRA "topped-up" Net Initial Yield in %	6.6	6.6	0.0	
EPRA Vacancy Rate in %	3.9	5.5	-1.6 pp	
EPRA Cost Ratio (including direct vacancy costs) in %	31.8	33.8	-2.0 pp	
EPRA Cost Ratio (excluding direct vacancy costs) in %	30.2	31.8	-1.6 pp	

EPRA EARNINGS

EPRA Earnings is an indicator of the sustainable performance of a real estate platform and is therefore fundamentally similar to the FFO calculation. EPRA Earnings does not factor in revenue components which have no influence on the long-term performance of a real estate platform. This includes, for example, measurement effects and the result from the disposal of properties.

Unlike the FFO calculation carried out by TLG IMMOBILIEN, EPRA Earnings does not exclude other non-cash or unsustainable effects from the result.

EPRA Earnings

in EUR k	1.1.2014–31.12.2014	1.1.2013–31.12.2013	Change	Change in %
Net income	88,650	99,132	-10,482	-10.6
Result from the remeasurement of investment property	-52,694	-72,237	19,543	-27.1
Result from the disposal of investment property	-3,291	-494	-2,797	566.2
Result from the disposal of inventory	-7,320	-7,777	457	-5.9
Tax on profits or losses on disposals	-36,661	36,849	-73,510	-199.5
Goodwill impairment	—	—	—	
Gain/loss from the remeasurement of derivates of financial instruments	2,129	-6,899	9,028	-130.9
Acquisition costs on share deals	172	—	172	
Deferred and actual taxes in respect of EPRA adjustments	59,129	4,332	54,797	1,264.9
Adjustments above in relation to joint ventures	—	—	—	
Non-controlling interests	-62	—	-62	
EPRA Earnings	**50,052**	**52,906**	**-2,854**	**-5.4**
Number of shares (in thousand)	53,794	52,000		
EPRA Earnings per share (in EUR)	0.93	1.02		

EPRA NET ASSET VALUE (EPRA NAV)

The EPRA NAV calculation discloses a net asset on a consistent, comparable basis. The EPRA NAV is a key control parameter for TLG IMMOBILIEN. The EPRA NAV increased by EUR k 476 since 31 December 2013. Unlike the change in equity, which is driven mainly by distributions, the deferred tax liabilities contribute to this development.

The increase of EUR k 62,323 in deferred tax liabilities to EUR k 150,463 resulted mainly from the use of Section 6b of the German Income Tax Act (EStG) with regard to the proceeds from sales and the increase in investment property.

The goodwill disclosed under intangible fixed assets, resulting from the acquisition of the property "Forum am Brühl" in Leipzig by way of a share deal, also had a negative effect.

EPRA Net Asset Value

in EUR k	1.1.2014–31.12.2014	1.1.2013–31.12.2013	Change	Change in %
Equity [1]	745,395	801,036	-55,641	-6.9
Fair value adjustments of fixed assets (IAS 16)	3,918	3,786	132	3.5
Fair value adjustment of inventory (IAS 2)	588	5,346	-4,758	-89.0
Fair value of financial instruments	17,814	18,773	-959	-5.1
Deferred tax assets	-3,006	-3,548	542	-15.3
Deferred tax liabilities	150,463	88,140	62,323	70.7
Goodwill	-1,164	—	-1,164	N/A
EPRA Net Asset Value	**914,008**	**913,533**	**476**	**0.1**
Number of shares (in thousand)	61,302	52,000		
EPRA NAV per share (in EUR)	14.91	17.57		

[1] Adjusted for non-controlling interests.

EPRA TRIPLE NET ASSET VALUE (NNNAV)

EPRA recommends the calculation of an EPRA Triple Net Asset Value (NNNAV) which, in addition to the EPRA NAV, corresponds to the fair value of the company without the going-concern principle. The EPRA NAV excludes hidden liabilities and hidden reserves resulting from market valuations of liabilities, as well as deferred taxes.

At the end of the 2014 financial year, the EPRA Triple Net Asset Value was EUR k 699,941 compared to EUR k 795,917 in the previous year. The change was mainly caused by changes in the equity itself and driven by distributions of EUR k 233,000 to the shareholders. The adjusted market value of the debt–which increased by EUR k 34,546 on the balance sheet date compared to 2013 due to borrowing at falling interest rates and the consequently more favourable financing conditions–also lowered the NNNAV.

EPRA Triple Net Asset Value (NNNAV)

in EUR k	1.1.2014–31.12.2014	1.1.2013–31.12.2013	Change	Change in %
EPRA Net Asset Value (NAV)	**914,008**	**913,533**	**476**	**0.1**
Fair value of financial instruments	-17,814	-18,773	959	-5.1
Market value adjustment of debt	-48,796	-14,250	-34,546	242.4
Deferred tax assets	3,006	3,548	-542	-15.3
Deferred tax liabilities	-150,463	-88,140	-62,323	70.7
EPRA Triple Net Asset Value (NNNAV)	**699,941**	**795,918**	**-95,977**	**-12.1**

EPRA NET INITIAL YIELD (NIY) AND EPRA "TOPPED-UP" NET INITIAL YIELD

The EPRA Net Initial Yield is a figure which reflects the yield of the real estate portfolio. It is calculated as the ratio between rental income on the balance sheet date less non-recoverable operating costs and the market value of the gross real estate portfolio.

EPRA Net Initial Yield (NIY) and EPRA "topped-up" Net Initial Yield

in EUR k	31.12.2014	31.12.2013	Change	Change in %
Investment property	1,489,597	1,414,691	74,905	5.3
Inventory	1,477	13,385	-11,908	-89.0
Properties classified as held for sale	21,991	17,817	4,175	23.4
Property portfolio (net)	1,513,065	1,445,893	67,172	4.6
Estimated transaction costs	103,466	62,608	40,858	65.3
Property portfolio (gross)	1,616,531	1,508,501	108,030	7.2
Annualised cash passing rental income	118,832	112,105	6,727	6.0
Property outgoings	-12,818	-13,025	207	-1.6
Annualised net rents	106,015	99,080	6,935	7.0
Notional rent for ongoing rent-free periods	25	336	-311	-92.5
Annualised "topped-up" net rent	106,040	99,416	6,624	6.7
EPRA Net Initial Yield (NIY) in %	**6.6**	**6.6**	**0.0**	
EPRA "topped-up" NIY in %	**6.6**	**6.6**	**0.0**	

EPRA VACANCY RATE

The EPRA Vacancy Rate is the ratio between the market rent for vacant properties and the market rent for the overall portfolio on the balance sheet date. The market rents used in this calculation were calculated by Savills Advisory Services GmbH as part of the measurement of the real estate portfolio's fair value.

The decline in the EPRA Vacancy Rate for the portfolio as a whole from 5.5% in the previous year to 3.9% in 2014 was due to the disposal of non-strategic properties and the conclusion of new rental agreements in the core portfolio.

EPRA Vacancy Rate

in EUR k	1.1.2014–31.12.2014	1.1.2013–31.12.2013	Change	Change in %
Market rent for vacant properties	4,579	6,400	-1,821	-28.5
Total market rent	117,618	115,559	2,059	1.8
EPRA Vacancy Rate (in %)	**3.9**	**5.5**	**-1.6 pp**	

EPRA COST RATIO

The EPRA Cost Ratio is the ratio between the total operative and administrative expenses and rental income, in order that the expenditure of the over-all real estate platform as a percentage of rental income can be compared between various real estate companies. The relevant operative and administrative costs reported in the EPRA Cost Ratio include all expenses resulting from the operational management of the real estate portfolio that cannot be recovered or passed on, excluding depreciation, borrowing interest and taxes, yet including one-off effects and non-recurring costs.

The positive development of the EPRA Cost Ratio is primarily due to the restructuring of the company which is reflected in lower personnel costs in particular.

EPRA Cost Ratio

in EUR k	1.1.2014–31.12.2014	1.1.2013–31.12.2013	Change	Change in %
Income statement costs under IFRS				
Expenses related to letting activities	36,469	35,076	1,393	4.0
Personnel expenses	17,358	23,394	-6,036	-25.8
Depreciation of operating and office equipment	1,236	1,461	-225	-15.4
Other operating expenses	15,717	7,812	7,905	101.2
Income from recharged utilities and other operating costs	-20,552	-21,637	1,085	-5.0
Income from other reimbursements	-1,324	-1,051	-274	26.0
Other operating income	-12,417	-5,019	-7,398	147.4
Ground rent	-26	-26	0	0.0
EPRA costs (including direct vacancy costs)	**36,461**	**40,011**	**-3,549**	**-8.9**
Direct vacancy costs	-1,832	-2,393	561	-23.4
EPRA costs (excluding direct vacancy costs)	**34,629**	**37,617**	**-2,988**	**-7.9**
Rental income	114,776	118,321	-3,545	-3.0
EPRA Cost Ratio (including direct vacancy costs) in %	**31.8**	**33.8**	**-2.0 pp**	
EPRA Cost Ratio (excluding direct vacancy costs) in %	**30.2**	**31.8**	**-1.6 pp**	

CORPORATE GOVERNANCE REPORT AND DECLARATION ON CORPORATE GOVERNANCE

In this declaration, TLG IMMOBILIEN AG (also referred to as 'the Company') reports on the principles of management pursuant to § 289a of the German Commercial Code (HGB) and on corporate governance pursuant to § 161 of the German Stock Corporation Act (AktG) and recommendation 3.10 of the German Corporate Governance Code ('the Code'). Besides a declaration of compliance with the Code, the declaration contains information on management practices, the composition and methods of the Management and Supervisory Boards and Supervisory Board committees, as well as information on other significant corporate governance structures.

IMPLEMENTATION OF THE CODE

Corporate governance denotes the responsible management and control of a company with a view to generating value over the long term. The management and corporate culture of TLG IMMOBILIEN AG comply with the statutory provisions and – with a few exceptions – the supplementary recommendations of the Code. The Management and Supervisory Boards of TLG IMMOBILIEN AG feel committed to corporate governance; all divisions of the Company adhere to it. We focus on values such as expertise, transparency and sustainability.

In the 2014 financial year, the Management and Supervisory Boards worked carefully to meet the standards of the Code. They factored in the amendments to the Code of 24 June 2014, which were published in the Federal Gazette on 30 September 2014, and in April 2015 they issued their declaration of compliance with the recommendations of the Code for the 2014 financial year in line with § 161 AktG and explained the few deviations. The declaration is available to shareholders and interested investors alike at http://ir.tlg.eu/websites/tlg/English/7200/declaration-of-compliance.html.

DECLARATION OF COMPLIANCE

In April, the Management and Supervisory Boards of the Company issued the following joint declaration of compliance pursuant to § 161 AktG:

"The Management and Supervisory Boards of TLG IMMOBILIEN AG declare that TLG IMMOBILIEN AG has fulfilled the recommendations of the amended Code dated 24 June 2014 since 10 September 2014 (the date on which the Company's reorganisation as an Aktiengesellschaft was entered into the commercial register), with the exception of recommendation 4.2.1 (no spokesman for the Management Board), recommendation 5.4.1 (concrete objectives regarding the composition of the Supervisory Board), recommendation 5.6 (examination of efficiency) and recommendation 7.1.2 line 4 (shorter publication deadlines for financial reports). Furthermore, the Management and Supervisory Boards of TLG IMMOBILIEN AG intend to meet all of the recommendations of the Code in the future, excluding the following temporary exceptions described below.

RECOMMENDATION 4.2.1 OF THE CODE: THE MANAGEMENT BOARD SHALL HAVE A CHAIRMAN OR SPOKESMAN

Recommendation 4.2.1 of the Code recommends that the Management Board consist of several people and has a chairman or spokesman.

Due to the size and composition of the Management Board, the chosen structure ensures good, close cooperation between its members.

RECOMMENDATION 5.4.1 OF THE CODE: CONCRETE OBJECTIVES REGARDING THE COMPOSITION OF THE SUPERVISORY BOARD

Pursuant to recommendation 5.4.1 of the Code, the Supervisory Board shall specify concrete objectives regarding its composition which, whilst considering the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts of interest, the number of independent Supervisory Board members within the meaning of recommendation 5.4.2, an age limit to be specified for the members of the Supervisory Board and diversity. These concrete objectives shall, in particular, stipulate an appropriate degree of female representation. Recommendations by the Supervisory Board to the competent election bodies shall take these objectives into account. The concrete objectives of the Supervisory Board and the status of the implementation shall be published in the Corporate Governance Report.

Due to the fact that the Supervisory Board was only active for four months in the 2014 financial year, and the fact that the 2014 financial year was greatly characterised by the IPO, such objectives have not yet been set; as a result, recommendations to election bodies could not take these into account and there is no such information in the Corporate Governance Report. In the future, objectives are to be set on a regular basis. In light of the German law on equal opportunities for men and women in managerial positions in public and private companies, the Supervisory Board will address the issue of having a fair proportion of women as it will be responsible for defining goals designed to increase the number of women on the Supervisory and Management Boards and for setting deadlines for these goals. The Company plans to fulfil these recommendations in the future.

RECOMMENDATION 5.6 OF THE CODE: EXAMINATION OF EFFICIENCY

Pursuant to recommendation 5.6 of the Code, the Supervisory Board shall examine the efficiency of its activities on a regular basis.

Due to the fact that the Supervisory Board was only active for four months in the 2014 financial year, this examination of efficiency has not yet been carried out. It will be carried out regularly in the future.

RECOMMENDATION 7.1.2 LINE 4 OF THE CODE: SHORTER PUBLICATION DEADLINES FOR FINANCIAL REPORTS

Pursuant to recommendation 7.1.2 line 4 of the Code, the consolidated financial statements of the Company shall be publicly accessible within 90 days of the end of the financial year; interim reports shall be publicly accessible within 45 days of the end of the reporting period.

TLG IMMOBILIEN AG published the interim report within two months of the end of each reporting period. Due to internal optimisations, the processes are to be adapted and streamlined – with consideration for the level of care necessary for the preparation of financial reports – in order that the goal of publishing consolidated financial statements and interim reports, which are to be prepared after this declaration of conformity is issued, within the deadlines prescribed by recommendation 7.1.2 line 4 of the Code is achieved."

Furthermore, the Company voluntarily fulfils the recommendations of the version of the Code dated 24 June 2014, with the following exceptions:

- Recommendation 2.3.2 of the Code: availability of the representative during the general meeting;
- Recommendation 2.3.3 of the Code: following the general meeting using modern communication media.

MANAGEMENT PRACTICES

At the moment, no special management practices exceeding the statutory requirements or the recommendations of the Code are in place.

WORKING METHODS OF THE MANAGEMENT AND SUPERVISORY BOARDS

As an Aktiengesellschaft incorporated under German law, TLG IMMOBILIEN AG has a dual management system consisting of the Management Board and Supervisory Board. The Management and Supervisory Boards work closely together to further the interests of the Company. In this context, the Management Board is responsible for management, and the role of the Supervisory Board involves control, monitoring and consultation. The shareholders of TLG IMMOBILIEN AG exercise their rights in the general meeting.

MANAGEMENT BOARD

The Management Board is responsible for the management of TLG IMMOBILIEN AG in line with the statutory provisions, the Articles of Association and the rules of procedure for the Management Board. Obliged to generate long-term value, it serves the interests of the Company. The Management Board develops the strategy of the Company, coordinates it with the Supervisory Board and ensures that it is implemented. It is also responsible for reasonable risk management and control within the Company and for submitting regular, prompt and comprehensive reports to the Supervisory Board.

The Management Board performs its management duties as a collegial body. The Board's overall responsibility for general management notwithstanding, the members of the Management Board manage the divisions to which each has been assigned by the Management Board on their own authority. The divisions are divided between the members of the Management Board as set out in the business distribution plan. Under this plan, Mr Peter Finkbeiner is responsible for finance,

controlling, accounting, investor relations, legal, IT/organisation and human resources, and Mr Niclas Karoff is responsible for investments, disposals, portfolio/asset management, marketing/public relations and branches (acquisition and sale, property management, project development). Both members of the Management Board are jointly responsible for the auditing division.

The work of the Management Board is governed in more detail by rules of procedure which assign responsibilities from a functional perspective. The rules of procedure for the Management Board were most recently amended by the Supervisory Board on 25 November 2014. The rules of procedure stipulate that the strategic orientation of the Company and the strategic allocation of resources in particular are determined by the entire Management Board. Additionally, the rules of procedure stipulate that measures and transactions which are of extraordinary significance to the Company and/or TLG IMMOBILIEN Group companies, or which involve an extraordinarily high economic risk, require the prior approval of the entire Management Board. Furthermore, the rules of procedure require certain transactions of fundamental significance to be approved by the Supervisory Board or one of its committees in advance. The Articles of Association also stipulate that transactions of fundamental significance require the approval of the Supervisory Board.

The Management Board provides the Supervisory Board with regular, prompt and comprehensive reports on all relevant matters of strategy, planning, business development, risk, risk management and compliance.

SUPERVISORY BOARD

The Supervisory Board monitors, controls and advises the Management Board. It works closely with the Management Board to further the interests of the Company and is involved in decisions of fundamental importance to the Company.

Its rights and duties are determined by the statutory provisions, the Articles of Association and the rules of procedure for the Supervisory Board dated 8 September 2014. It appoints and dismisses the members of the Management Board and, together with the Management Board, ensures long-term succession planning. It works both in plenary sessions and in committees (see below). The committees work to improve the efficiency of the Supervisory Board's activities. The chairmen of the committees regularly report to the Supervisory Board on the work of their committees. In line with its rules of procedure, the Supervisory Board must convene at least twice every six months. Otherwise, it convenes as often and as soon as the interests of the Company demand. Four Supervisory Board meetings are currently scheduled for the 2015 calendar year.

The members of the Supervisory Board are selected in particular by virtue of their expertise, abilities and professional experience which they will need in order to carry out their work. Only persons who will still be under the age of 75 as of the date of appointment may stand for election to the Supervisory Board of the Company. In its rules of procedure, the Supervisory Board has set itself the requirement that at least one independent member of the Supervisory Board must be an expert in either accounting or auditing (§ 100(5) AktG). Furthermore, the rules of procedure stipulate that a member of the Supervisory Board who also belongs to the management board of a listed company may not be a member of more than two other supervisory boards of listed companies or companies with similar requirements which do not belong to the TLG Group in which the Management Board activities are being performed. Additionally, members of the Supervisory Board may perform any executive functions or serve as consultants for major competitors of the TLG Group. Diversity must also be taken into account. In the future, the Company will follow the specific recommendations of recommendation 5.4.1 (2) and (3) of the Code which

concern the composition of the Supervisory Board under certain criteria, the inclusion of these objectives in the recommendations of the Supervisory Board and the publication of the objectives and their implementation status in the Corporate Governance Report. As set out in the declaration of compliance which is available at http://ir.tlg.eu/websites/tlg/English/7200/declaration-of-compliance.html, however, the Company has so far refrained from following these recommendations because the 2014 financial year was essentially characterised by the IPO and the Supervisory Board was only established in September 2014.

COMPOSITION OF THE MANAGEMENT AND SUPERVISORY BOARDS

Pursuant to the Articles of Association, the Management Board consists of at least two people. The Supervisory Board, which appoints the members, specifies the number of members. In the 2014 financial year, the Management Board has consisted of two members since 8 September 2014. The Management Board has no chairman.

Pursuant to the Articles of Association, the Supervisory Board consists of six members. It is not subject to any employee participation. All of the members are elected by the general meeting as representatives of the shareholders.

Pursuant to § 285 no 10 HGB, more information on the members of the Management and Supervisory Boards can be found in the notes to the annual financial statements of TLG IMMOBILIEN AG (page 50 et seq.).

COLLABORATION BETWEEN THE MANAGEMENT AND SUPERVISORY BOARDS

The Management and Supervisory Boards work closely together to further the interests of the Company. The intensive, ongoing dialogue between the Boards is the basis for efficient and effective corporate governance. The Management Board develops the strategy of TLG IMMOBILIEN, coordinates it with the Supervisory Board and ensures that it is implemented. The Management and Supervisory Boards regularly meet to discuss the implementation of the strategy. The Chairman of the Supervisory Board is in regular contact with the Management Board and discusses matters of strategy, planning, business development, risk, risk management and compliance with it. The Management Board immediately informs the Chairman of the Supervisory Board of any major events of significance to the analysis of the Company's situation and development and to the management of the Company and its Group companies. The Chairman of the Supervisory Board then immediately informs the Supervisory Board and, if necessary, convenes an extraordinary Supervisory Board meeting.

The Articles of Association and the rules of procedure for the Management Board stipulate that transactions of fundamental significance require the approval of the Supervisory Board.

The members of the Management Board must immediately reveal any conflicts of interests to the Supervisory Board and their fellow Management Board members. Likewise, significant transactions between members of the Management Board or related parties and the Company require the approval of the Supervisory Board, as does the commencement of secondary employment outside of the Company.

A D&O group insurance policy was taken out for the members of the Management and Supervisory Boards; this policy contains an excess that meets the requirements of § 93(2) AktG.

COMMITTEES OF THE SUPERVISORY BOARD

In the 2014 financial year, the Supervisory Board had two committees: the presidential and nomination committee and the audit committee. Other committees can be formed if necessary.

The presidential and nomination committee provides advice on its areas of expertise and prepares resolutions for the Supervisory Board. In particular, it prepares the resolutions of the Supervisory Board on the following matters:

a) Appointing and dismissing members of the Management Board;
b) Concluding, amending and terminating the employment contracts of members of the Management Board;
c) The structure of the remuneration system for the Management Board, including the key contractual elements and the total remuneration for each member of the Management Board;
d) Supervisory Board recommendations for the general meeting in connection with the election of suitable members of the Management Board;
e) Principles of financing and investments, including the capital structure of TLG IMMOBILIEN Group companies and dividend payments;
f) Principles of acquisition and disposal strategies, including the acquisition and disposal of individual shareholdings of strategic significance.

The presidential and nomination committee regularly advises the Management Board on long-term succession planning.

The presidential and nomination committee consists of Mr Michael Zahn, Mr Alexander Heße and Dr Michael Bütter. The Chairman of the Supervisory Board is also the Chairman of the presidential and nomination committee.

Audit committee

The audit committee predominantly monitors the accounting process, the effectiveness of the internal control system and audit system, the audit of the financial statements – especially the independence of the auditor – the additional services rendered by the auditor, the selection of an auditor, the identification of main audit points, the auditor's fee and compliance.

The audit committee prepares the resolutions of the Supervisory Board on the annual financial statements (and, if necessary, also the consolidated financial statements), i.e. it is primarily responsible for the preliminary audit of the documents of the financial statements and consolidated financial statements, the preparation of their approval/adoption and the proposed appropriation of profits by the Management Board. Furthermore, the audit committee prepares the agreements with the auditor (especially the awarding of the audit contract, the definition of focal points for the audit and the agreed fees) as well as the appointment of the auditor by the general meeting. This also involves the verification of the necessary degree of independence, in which regard the audit committee takes reasonable steps to determine and monitor the independence of the auditor. In lieu of the Supervisory Board, the audit committee approves contracts with auditors for

additional consultancy services if such contracts require consent under the Articles of Association or the rules of procedure for the Management Board. The audit committee discusses the principles of compliance, risk documentation, risk management and the suitability and effectiveness of the internal control system with the Management Board. Four audit committee meetings are currently scheduled for the 2015 calendar year.

The audit committee consists of Mr Axel Salzmann (Chairman), Mr Michael Zahn and Ms Elisabeth Stheeman. The Chairman of the audit committee is independent and has particular knowledge and experience in the application of GAAP and internal control processes, and therefore meets the requirements of § 100(5) AktG. The members of the audit committee are experts in accounting and auditing and the composition of the committee meets all independence requirements in terms of the Recommendation of the European Commission of 15 February 2015 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC) OJEU L 52 of 25 February 2005, p. 51, as well as the recommendation of the Code.

The Management Board has not formed any committees. However, as a collegial body it performs its management duties whereby individual organisational units have been assigned to each member of the Management Board.

GENERAL MEETING AND SHAREHOLDERS

As set out by the Articles of Association, the shareholders of TLG IMMOBILIEN AG can exercise their rights in the general meeting, including their voting rights. Every share grants one vote.

The general meeting takes place annually, within the first eight months of the financial year. The agenda of the general meeting and the reports and documents required for the general meeting are published on the website of TLG IMMOBILIEN AG.

Fundamental resolutions are passed in general meetings, including resolutions on the appropriation of profits, the dismissal of Management and Supervisory Board members, the election of members to the Supervisory Board, the appointment of the auditor, amendments to the Articles of Association and measures affecting the capital of the Company. The general meeting is a good opportunity for the Management and Supervisory Boards to come face to face with the shareholders and discuss the future course of the Company.

In order to make it easier for them to exercise their rights, TLG IMMOBILIEN AG provides its shareholders with a proxy, who is bound to follow their instructions; the proxy remains available during the general meeting. The invitation to the general meeting explains how instructions can be issued in the run-up to the general meeting. Additionally, the shareholders are free to have an authorised representative of their choice represent them in the general meeting.

OTHER CORPORATE GOVERNANCE

REMUNERATION OF THE MANAGEMENT BOARD

The remuneration system for the Management Board is regularly the subject of consultation, examination and revision in the plenary sessions of the Supervisory Board.

The contracts of the members of the Management Board of TLG IMMOBILIEN AG contain fixed and variable components. For all members of the Management Board, the variable remuneration is adapted to the requirements of § 87(1) line 3 AktG. It is contingent on the achievement of economic targets for the Company and is predominantly based on multi-year assessment principles. The variable remuneration is only payable if the course of business was sufficiently positive. The remuneration structure has been designed to ensure sustainable corporate development and it optimises the risks and rewards of the variable remuneration.

The full remuneration report of TLG IMMOBILIEN AG for the 2014 financial year is available on the website of the Company at http://ir.tlg.eu/websites/tlg/English/7400/remuneration-report.html.

REMUNERATION OF (EXECUTIVE) EMPLOYEES

In January 2015, a long-term incentive programme was introduced for executives and other individual employees whose incentives, like a share option scheme, are based on external factors such as the performance of the FTSE EPRA/NAREIT Europe Index and the development of its factors, over a period of four years. The calculations and defined targets of this programme comply with the long-term incentive regulations of the Management Board, which are set out in the remuneration report published at http://ir.tlg.eu/websites/tlg/English/7400/remuneration-report.html.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board was set out in § 13 of the Articles of Association by the general meeting. The members of the Supervisory Board receive fixed annual remuneration of EUR 30,000. The Chairman of the Supervisory Board receives double this amount and the Vice-chairman receives one-and-a-half-times this amount. Additionally, every member of the Supervisory Board receives fixed remuneration of EUR 5,000 per financial year for their membership in the audit committee of the Supervisory Board. The Chairman of the Supervisory Board receives double this amount. Every member of the Supervisory Board receives fixed remuneration of EUR 5,000 per financial year for their membership in the presidential and nomination committee of the Supervisory Board. The Chairman of the Supervisory Board receives double this amount. Additionally, every member of the Supervisory Board receives an attendance fee of EUR 1,500 every time they attend a physical meeting of the Supervisory Board and its committees in person. Expenses are reimbursed. Additionally, the Company provides the members of the Supervisory Board with insurance cover at its own expense as part of a D&O group insurance policy for corporate bodies and managers. In this context, an excess in line with the requirements of § 93(2) AktG was agreed for the members of the Supervisory Board.

No performance-based remuneration is paid to the members of the Supervisory Board. The remuneration report contains a breakdown of the remuneration of the Supervisory Board for each member.

REPORTABLE SECURITY TRANSACTIONS AND SHAREHOLDINGS OF THE MANAGEMENT AND SUPERVISORY BOARDS

Under § 15a of the German Securities Trading Act (WpHG), the members of the Management and Supervisory Boards of TLG IMMOBILIEN AG, including related parties, are obliged to disclose transactions involving shares of TLG IMMOBILIEN AG or financial instruments relating to said shares within five working days. The Company immediately publishes these transactions after they are reported to it. These transactions are published on the Company's website at http://ir.tlg.de/websites/tlg/English/3400/directors_-dealings.html.

COMPLIANCE AS A SIGNIFICANT MANAGERIAL RESPONSIBILITY

In order to ensure adherence to the code of conduct and standards of the Code, as well as the statutory provisions, TLG IMMOBILIEN AG has appointed a compliance officer and a capital market compliance officer. The former informs the management and employees of any relevant general legal circumstances. The latter maintains the insider list of the Company and informs the management, employees and business partners of the consequences of breaches of insider trading regulations.

REASONABLE RISK AND OPPORTUNITY MANAGEMENT

For TLG IMMOBILIEN AG, responsible conduct in the face of opportunities and risks is of fundamental importance. This is ensured by comprehensive opportunity and risk management which identifies and monitors significant opportunities and risks. This system is continuously enhanced and adapted based on the changing general conditions.

More detailed information is available in the management report: the risk management of TLG IMMOBILIEN AG is presented from page 72 of the management report, strategic opportunities are described on pages 81 and information on Group accounting can be found on page 98 of the notes.

COMMITTED TO TRANSPARENCY

As part of ongoing investor relations, at the start of the year all dates of importance to shareholders, investors and analysts are marked in the financial calendar for the duration of each financial year. The financial calendar, which is updated continuously, is available on the Company's website at http://ir.tlg.de/websites/tlg/English/6000/financial-calendar.html.

The Company provides information to shareholders, analysts and journalists in line with holistic criteria. The information is transparent and consistent for all market participants. Ad-hoc announcements, press releases and presentations of press and analysts' conferences and roadshows are immediately published on our website.

Insider information (ad-hoc publicity), voting rights notifications and security transactions involving members of the Management and Supervisory Boards or their related parties (directors' dealings) are immediately published by TLG IMMOBILIEN AG in line with the statutory provisions. These are also published on the Company's website at http://ir.tlg.de/websites/tlg/English/3400/directors_-dealings.html.

FINANCIAL REPORTING

Once again, EY Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was appointed auditor for 2014 by the general meeting. Before the general meeting, EY Ernst & Young GmbH Wirtschaftsprüfungs-gesellschaft issued a declaration that there were no business, financial, personal or other relationships between the auditor, its bodies or audit managers and the Company or the members of its bodies which could throw its independence into question.

As set out in the declaration of compliance with recommendation 7.1.2 of the Code, TLG IMMOBILIEN AG intends to adhere to the Code's publication deadlines of 90 days after the financial statements for the consolidated financial statements and 45 days after the end of the reporting period for interim reports.

MORE INFORMATION

More information on the activities of the Supervisory Board and its committees, and on its collaboration with the Management Board, is available in the report of the Supervisory Board.

GROUP MANAGEMENT REPORT DETAILED INDEX

GROUP MANAGEMENT REPORT

1. COMPANY FUNDAMENTALS

1.1 BUSINESS MODEL, OBJECTIVES, STRATEGY

TLG IMMOBILIEN AG is a real estate company which has been listed in Prime Standard at the Frankfurt Stock Exchange since October 2014.

As a leading commercial real estate specialist in Berlin and the regional growth centres of Dresden, Leipzig and Rostock, the corporate group of TLG IMMOBILIEN AG ("TLG IMMOBILIEN") has clearly positioned itself in East Germany. Its high-quality portfolio of properties has a market value of EUR 1.5 bn (fair value as at 31.12.2014) and generates a stable cash flow from letting activities.

TLG IMMOBILIEN is an active portfolio manager and it operates office and retail properties as well as five hotels. The solid position of the company is reflected in its average remaining rental agreement term of 7.6 years in the core portfolio and the low vacancy rate of 3.2% as at the end of 2014.

Its conservative financing model provides for a long-term net loan-to-value ratio of between 45% and 50% (31.12.2014 40.3%) and enjoys an average interest rate below 3% as at the end of 2014. TLG IMMOBILIEN received approximately EUR 100 mn in gross proceeds from its IPO on 24 October 2014, which served to strengthen the equity basis of the Group and of the company. Additionally, the Group generates revenue from the disposal of properties which do not belong to the core portfolio.

Given its established business model and the favourable general conditions on the financial market, TLG IMMOBILIEN is in an excellent position to implement its corporate strategy which focuses on further portfolio growth through acquisitions.

The corporate platform, which was further optimised as part of a successful restructuring process in 2013 and 2014, will now facilitate the rapid integration of recently acquired properties in the core regions with merely marginal additional administrative costs.

The business model and corporate strategy of TLG IMMOBILIEN are based on the following principles:

- Strategic portfolio management
  Shaped by a deep understanding of local markets and real estate, significant services such as strategic portfolio management and monitoring, valuation and portfolio planning are rendered centrally.

- Asset and property management
  TLG IMMOBILIEN covers all major links in the real estate value chain internally. Its various branches and regional offices manage a decentralised responsibility for commercial property management and tenant relations.

- Acquisitions and sales
  With its many years of extraordinary local expertise, TLG IMMOBILIEN is exceptionally well connected in its core markets. This generates attractive opportunities for the company to grow and chances to dispose of properties that do not belong to the core portfolio for the best possible prices.

The objective of the company is to efficiently manage and develop its high-quality real estate portfolio and to add to its core portfolio through acquisitions of value-generating office and retail properties in the core regions. By focusing on the selective acquisition of properties whose rents have the potential to increase or with a moderate vacancy rate and following up with active asset management, the company generates potential for increases in value through optimised leasing and operational management. Parallel to its external growth strategy, TLG IMMOBILIEN will dispose of properties that do not belong to its strategic core portfolio.

1.2 MANAGEMENT SYSTEMS

The management and control system of TLG IMMOBILIEN is designed to generate stable developments in the long-term value of the real estate portfolio and a sustainably high liquidity surplus from long-term letting, which is in the interests of the company's shareholders, employees and business partners. The system is based on integrated medium-term corporate planning which accounts for a three-year planning horizon. The major components of corporate planning are the operational management, sales and investment plans on a property and investment level. These plans are reflected in the income, asset, financial and cash flow plans of the Group. The corporate plan is revised on an annual basis and adjusted to suit the current market situation.

The Management Board is responsible for controlling TLG IMMOBILIEN. The Supervisory Board monitors and advises the Management Board on its managerial role in line with company law and the company's internal guidelines. The Supervisory Board comprised six members as at the reporting date.

In September 2013, the company began implementing new, fully integrated control and planning software. In 2014, this software permitted detailed plan progress analyses to be carried out as part of monthly control reports and the quarterly reports.

Using key figures, the monthly control reports maintain internal transparency with regard to the performance of the company during the year. The reports focus on the key figures FFO (funds from operations), net LTV (net loan-to-value) and EPRA NAV (net asset value) in particular; these key figures are also used in the quarterly reports. The value drivers for these three key figures, such as rental income, the remaining terms of rental agreements, vacancy rates and portfolio investments, are monitored and reported on from month to month in the control reports. Corresponding analyses allow the company to assess its current development and take steps to control it.

Another operative control parameter is the generation of a stable cash flow from operative business in order to expand and optimise the real estate portfolio.

The calculations of the key figures are disclosed in the economic report.

2. ECONOMIC REPORT

2.1 GENERAL ECONOMIC CONDITIONS AND PROPERTY MARKETS

2.1.1 General economic situation

The economic situation in Germany has stabilised after its strong start to the year which was followed by a period of weakness, which lasted from summer to the end of 2014. According to information published by the Federal Statistical Office of Germany, the GDP for 2014–adjusted by price and calendar–was 1.5% higher than in the previous year and therefore above the average of the past decades of 1.2%. In 2013, and 2012 the GDP grew at a much more moderate rate–by 0.2% in 2013 and 0.6% in 2012. Overall, the European Commission expects a total increase in GDP of 0.8% for the 19 eurozone countries in 2014 and an increase of 1.3% for all 28 member states in the same period.

Domestic consumption and foreign trade were the main drivers of the increased economic output of the German economy. According to the Federal Statistical Office of Germany, private consumer spending grew by 2.1% in 2014. This was driven by the ever-higher employment rate and the perceptible increases in actual wages in particular. The available income of private households grew by 2.2% in 2014 over the previous year. On the job market, Germany hit a record annual average number of employed people for the eighth year in a row. Around 42.7 mn employees working in Germany contributed to its economic output–or 0.9% more than in the previous year. After the falling unemployment rate had slowed somewhat following the cautious economic developments in 2013, it picked up speed again in 2014.

This is also reflected by the unemployment figures of the Federal Employment Agency. Based on a higher rate of unemployment in East Germany, the dynamics here were more positive than in Germany as a whole in 2014. Whereas the unemployment rate in East Germany fell by 0.6 percentage points to 9.3% between December 2013 and December 2014, it only fell by 0.3 percentage points in Germany as a whole. The unemployment rate here was 6.4% in December 2014.

The economy is being hampered by political crises–ranging from Ukraine to the Middle East–yet Germany is becoming more and more attractive as a refuge for secure property investments. This is the belief of almost half of all the German real estate companies asked about their business expectations by the Cologne Institute for Economic Research (IW) for the IW property index 2014.

The core markets of TLG IMMOBILIEN–Berlin, Dresden, Leipzig and Rostock–are also benefiting from the stability in Germany. The investment volume in Berlin and the East German states reflects the good investment climate in the core regions of TLG IMMOBILIEN. According to BNP Paribas Real Estate, the transaction volume on the real estate market in Berlin increased by approximately 19.0% to more than EUR 4.2 bn from 2013 to 2014. An assessment of the East German states (with the exception of Berlin) carried out by Savills Immobilien Beratungs-GmbH ("Savills") confirms investment turnover of EUR 2.7 bn in 2014–almost twice as much as in 2013 (EUR 1.36 bn).

Additionally, a study carried out in October 2014 by the Cologne Institute for Economic Research in cooperation with Thomas Daily and on behalf of the German Property Federation (ZIA) speaks to the attractiveness of property markets outside of Germany's metropolises. In B-rated cities–from Hanover, Leipzig and Dresden to Ingolstadt, Karlsruhe and Freiburg–for example, the number of employed people subject to social insurance contributions and the GDP grew at an above-average rate compared to A-rated locations. As the volumes of money invested in smaller cities have always been smaller, attractive returns can be generated in most B-rated German cities due to factors including the persistently good ratio between supply and demand. For example, the returns in the office segment in B-rated cities are on average 1.4 percentage points higher than similar returns in German metropolises.

2.1.2 Development of the office property market

According to statistics published by BNP Paribas Real Estate, office properties dominated the German investment market with around EUR 17.0 bn, which corresponds to roughly 42.0% of its total volume. Compared to the previous year, almost 25.0% more capital flowed once again into German office properties. The historically favourable interest rates, significantly improved financing conditions and a generally stable German economy currently represent an exceedingly attractive investment environment.

The generally low level of speculative construction work is increasing the shortage of modern areas in popular inner-city locations and, according to analyses carried out by the property network Deutsche Immobilien Partner (DIP) and Aengevelt Research (Aengevelt), is leading to top and average rents ranging from stable to increasing across the market. The average top rent in the 14 analysed German office markets[1] remained constant at EUR 25.40 per square metre in 2013/2014. Even the average rent for office areas in city locations remained stable over the year and, by the end of 2014, had reached approximately EUR 15.60 per square metre across the market–as in the previous year.

With regard to specific office markets in East Germany, such as in Berlin and Leipzig, slight increases in the average rent in inner-city locations have even been registered. In Berlin, the average rent level in the city increased by 1.8% to EUR 16.80 per square metre in 2014 compared to the previous year, and in Leipzig it increased by 12.5% to EUR 9.00 per square metre. In Dresden and Rostock, the average rents remained constant at EUR 8.50 and EUR 8.30 per square metre, respectively.

[1] Berlin, Bremen, Dresden, Düsseldorf, Essen, Frankfurt am Main, Hamburg, Cologne, Leipzig, Magdeburg, Munich, Nuremberg, Rostock, Stuttgart

In terms of letting turnover, the three most significant East German office markets – Berlin, Dresden and Leipzig – registered considerable growth in contrast to office metropolises such as Düsseldorf, Frankfurt, Cologne and Munich, according to the findings of DIP and Aengevelt. In Dresden, letting turnover increased by 25.0% and hit 100,000 square metres between 2013 and 2014, whereas in Berlin 22.4% more office space was converted than in the previous year. According to the property advisers from Colliers International, numerous companies, predominantly from the information, telecommunication and consultation sectors, are expanding in the capital or moving their German headquarters into the capital.

According to Colliers International, the office vacancy rate in Berlin fell again over the course of 2014 due to the persistently relatively low rate of construction in combination with high pre-leasing requirements. The vacancy rate in Berlin is currently 4.9% – according to statistics published by Colliers International, 6.0% of offices in Berlin were vacant in 2013.

2.1.3 Development of the retail property market

Based on estimates by the Federal Statistical Office of Germany, German retailers increased their turnover by between 1.1% and 1.3% in 2014. This increase is the result of record rates of employment, the low inflation rate and the willingness of German consumers to spend money in spite of global uncertainty and crises. According to information from the consumer research society GfK, consumer confidence reached its highest level for 13 years in winter 2014/2015. Less money spent on petrol, diesel and fuel oil is boosting the level of disposable income and giving consumers a greater capacity for other purchasers. Additionally, according to GfK, consumers' propensity to save money has hit an all-time low. The ever-increasing level of online retail has had almost no impact so far on food retailers specialising in convenience stores.

Due to the positive general conditions, retail properties are becoming more and more attractive to investors as an asset class. According to BNP Paribas Real Estate, approximately EUR 9.2 bn was invested in German retail properties in 2014. With a share of approximately 23.0%, this makes retail properties the second-largest asset class in the field of commercial real estate after office properties. According to Colliers International, investors – more and more of whom are coming from abroad – focused more on specialist retailers, discounters and retail parks in particular over shopping centres. New retail parks in excellent locations achieved an average top rate of return of between 6.0% and 6.6%. Individual specialist retailers in excellent locations reached between 6.0% and 7.0%.

The level of transactions was limited by the restricted range of suitable investments. The lack of alternative investments resulted in a greater volume of investments being made outside of the core segment in 2014. BNP Paribas Real Estate therefore concluded that the turnover of value-add and core-plus retail portfolios represented 88.0% of aggregate turnover from portfolio transactions in retail. The top rents are continuing to fall as a result of the excess demand – in the top 7 cities in particular but also in prosperous regional centres.

According to Jones Lang LaSalle (JLL), lessors were able to increase their letting turnover of retail properties. The brokers expect an increase in letting turnover of approximately 20.0%. It was roughly 480,000 square metres in 2013.

According to BNP Paribas Real State, the retail rents at the top locations in Germany increased again in 2014 but were considerably less dynamic than in 2013. Overall growth of 1.3% was registered at the 7 most significant retail locations; Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Leipzig and Munich. In Berlin, the top rent increased by 3.0% to EUR 310.00 per square metre between 2013 and 2014–behind Munich, which has a top rent of EUR 370.00 per square metre. Peaking at EUR 120.00 per square metre in Leipzig, rents there remained stable.

2.1.4 Development of the hotel property market

The German hotel industry rated its situation in summer and autumn 2014 as more positive than in the previous year. The survey of its members' economic positions carried out by DEHOGA and the survey of businesses carried out by the German Chamber of Commerce and Industry (DIHK) in October 2014 both reached the same conclusion. The positive atmosphere is still the result of the increasing number of overnight stays by German and foreign guests–even business travel was exceptionally stable in 2014 due to the robust economic situation and solid job market. The sector is benefiting from private consumption continuing to form a reliable economic basis.

According to the German Federal Statistical Office, from January to November 2014 the number of overnight stays by guests in Germany increased by 3.0% to 398 mn compared to the same period in the previous year. In this context, the increase in overnight stays by foreign guests was 5.0% higher than the increase in overnight stays by German guests (+3.0%). The German Federal Statistical Office also expects the number of overnight stays for 2014 as a whole to hit a new record of 423 mn. These positive guest statistics are also reflected in the turnover of the hotel and restaurant industry. Hotels alone experienced real turnover growth of 0.8% between January and November 2014 compared to the same period in the previous year.

The favourable situation currently enjoyed by the tourism industry led to a period of strong activity on the German hotel investment market in 2014. According to Colliers International, in 2014 the transaction volume on the hotel property market increased by 82.0% throughout Germany compared to the previous year and, at EUR 3.1 bn, reached the highest level ever recorded.

Berlin registered a particularly dramatic increase in investment turnover. With growth of 75.5% between 2013 and 2014, EUR 351 mn was invested in hotel property in Berlin in 2014 according to the findings of BNP Paribas Real Estate. These dynamics are partially based on the record levels of overnight stays. Berlin registered 26.9 mn overnight stays in 2013, which placed it third overall in Europe behind London and Paris. It is likely that another new annual record will be set in 2014. According to the Statistical Office for Berlin-Brandenburg, the number of overnight stays in Berlin had already hit 26.5 mn by November 2014–an increase of 6.2% over the same period in the previous year.

2.2 COURSE OF BUSINESS

Overall presentation

The performance of TLG IMMOBILIEN in the 2014 financial year was overall positive. Properties in the core regions were acquired in line with the forecast. Likewise, the development of the real estate portfolio progressed according to plan in the 2014 financial year. The achievement of strategic goals through the disposal of non-strategic properties was supported by the increasingly positive market environment.

Overall, the developments described in the 2013 forecast report proved true.

Key portfolio figures under IFRS

Figures	**Total**	**Core portfolio**	Office properties	Retail	Hotel	Non-core portfolio
Property value (fair value) (in EUR k)	**1,525,986**	**1,413,727**	553,485	668,827	191,415	112,259
Annualised in-place rent (excluding bills) (in EUR k)	**118,859**	**106,321**	39,029	54,845	12,448	12,538
In-place rental yield (in %)	**7.8**	**7.5**	7.2	8.2	6.2	11.2
EPRA Vacancy Rate (in %)	**3.9**	**3.2**	6.7	1.0	1.1	10.7
WALT (in years)	**7.4**	**7.6**	5.7	6.9	16.1	5.5
Properties (number)	**460**	**323**	47	271	5	137
Lettable area (in sqm)	**1,294,815**	**938,648**	377,570	485,222	75,856	356,167

As at 31 December 2014, the real estate portfolio of TLG IMMOBILIEN comprised 460 properties (31.12.2013: 573) with a value (IFRS) of approximately EUR 1.526 bn (2013: approximately EUR 1.462 bn). The value of the property increased by 4.4% in the 2014 financial year. In this regard, the core portfolio – which represents 92.6% of the total value (31.12.2013: 88.7%) – grew in value by 9.0% to approximately EUR 1.414 bn (previous year: approximately EUR 1.297 bn) through new, strategic acquisitions and measures designed to increase its value. In contrast, the value of the non-core portfolio fell by 31.9% to EUR k 112,529 (previous year: EUR k 164,911) due to the disposal of additional properties that did not belong to the portfolio strategy of TLG IMMOBILIEN.

The new acquisitions in 2014 – two office properties in Berlin and one in Leipzig – strengthened the office asset class in the core portfolio by increasing its value to EUR k 553,485, which corresponds to 39.2% of the overall portfolio (previous year: EUR k 447,612, 34.5%). At EUR k 668,827 and 47.3%, retail properties experienced slight growth (previous year: EUR k 664,224, 51.2%). Although their 13.5% proportion of the overall value did not change significantly (previous year: 14.3%), hotel properties recorded growth in value of 3.1% to EUR k 191,415 (previous year: EUR k 185,611).

Representing 73.7% of the total value of the portfolio (previous year: 71.0%), properties in the core portfolio are concentrated in Berlin and the regional economic centres of Dresden, Leipzig and Rostock, in which regard Berlin dominates with 45.1% (previous year: 44.5%). Representing 26.3% (previous year: 29.0%), retail properties – especially discounters and supermarkets – are predominant in the other locations.

The EPRA Vacancy Rate for the core portfolio of TLG IMMOBILIEN fell from 4.4% (31.12.2013) to 3.2% (or 3.0% on a like-for-like basis). By reducing the EPRA Vacancy Rate by 3.3 percentage points to 1.1% in the hotel asset class, TLG IMMOBILIEN achieved almost full occupancy in its two development properties Motel One Dresden and Motel One Rostock as at 31 December 2014. The vacancy rate fell by 2.2 percentage points to 6.7% in the office asset class (or 6.8% on a like-for-like basis). This was mainly due to the continued reduction in the vacancy rates of the Berlin property Alexanderstrasse 1, 3, 5 from 38.6% to 25.7%. The EPRA Vacancy Rate of the retail properties which, at 1.5% as at 31 December 2013, were almost fully occupied, fell slightly again to 1.0% as at 31 December 2014.

The weighted average lease term (WALT) of the fixed-term rental agreements in the core portfolio moved from 8.4 years to 7.6 years (or 7.7 years on a like-for-like basis). In the office asset class, at 5.7 years (or 5.8 years on a like-for-like basis) the WALT was kept at almost the same level as in the previous year through new rental agreements for vacant space and extensions of rental agreements (previous year: 5.8 years). In the retail asset class, almost full occupancy and the successive expiry of rental agreements caused the WALT to fall to 6.9 years (previous year: 7.7 years). The hotel asset class had a WALT of 16.1 years as at 31 December 2014 (previous year: 17.4 years) due to the low building ages, their specific use and being used for the first time primarily between 2011 and 2013.

The annualised in-place rent (excluding bills) increased by 5.7% to EUR k 118,859 as at 31 December 2014 (previous year: EUR k 112,451). Whereas the core portfolio experienced growth of 10.0% to EUR k 106,321 (previous year: EUR k 96,677) due primarily to acquisitions, falling vacancy rates and increases in rent, the non-core portfolio fell by 20.5% to EUR k 12,538 (previous year: EUR k 15,774) due to the disposal of non-strategic properties. On a like-for-like basis (with no acquisitions from 2014), the annualised in-place rent (excluding bills) in the core portfolio increased by 3.7% over the previous year.

2.3 SITUATION, FINANCIAL AND NON-FINANCIAL INDICATORS

2.3.1 Results of operations

Positive total comprehensive income (in the sense of IFRS) of EUR k 76,818 was generated in the 2014 financial year. The results were EUR k 22,167 lower than in the previous year, primarily due to the remeasurement of investment property. The table below presents the results of operations:

in EUR k	1.1.2014–31.12.2014	1.1.2013–31.12.2013	Change	Change in %
Net operating income from letting activities	100,263	106,250	-5,987	-5.6
Result from the remeasurement of investment property	52,694	72,237	-19,543	-27.1
Result from the disposal of investment property	3,291	494	2,797	566
Result from the disposal of inventory	7,320	7,777	-457	-5.9
Other operating income	16,839	18,687	-1,848	-9.9
Personnel expenses	17,358	23,394	-6,036	-25.8
Depreciation	1,236	1,461	-225	-15.4
Other operating expenses	15,717	7,812	7,905	101.2
Earnings before interest and taxes (EBIT)	**146,096**	**172,778**	**-26,682**	**-15.4**
Income from joint ventures	0	2,134	-2,134	-100.0
Net interest	-23,688	-35,387	11,699	-33.1
Gain (-)/loss from the remeasurement of derivatives	2,129	-6,899	9,028	-130.9
Earnings before tax	**120,279**	**146,423**	**-26,144**	**-17.9**
Income taxes	31,629	47,291	-15,662	-33.1
Group income for the period	**88,650**	**99,132**	**-10,482**	**-10.6**
Other comprehensive income (OCI)	-11,832	-147	-11,685	N/A
Total comprehensive income	**76,818**	**98,985**	**-22,167**	**-22.4**

The net operating income from letting activities was EUR k 100,263 in the 2014 financial year, which represents a decrease of EUR k 5,987 compared to the previous year. The decrease was primarily the result of the continued disposal of non-strategic properties in 2014. Revenue from the properties in the core portfolio increased due to higher rental income and lower vacancy rates. The recently acquired properties also served to increase net operating income in the reporting year. However, these could not fully compensate for the fall in revenue from the disposals.

The result from the remeasurement of investment property was positive in 2014. At a volume of EUR k 52,694, in the 2014 reporting year the increase in value was EUR k 19,543 lower than in the same period in 2013. The decrease is essentially the result of changes to the portfolio.

The result from the disposal of properties increased by EUR k 2,340 to EUR k 10,611 in comparison to the same period in the previous year. Some profitable retail properties were successfully disposed of in 2014.

In 2014, the other operating income essentially comprised the current sole shareholders' assumption of EUR k 9,800 in expenses incurred in connection with the IPO. In contrast, in the 2013 financial year, other operating income comprised income from the reversal of liabilities in connection with real estate transfer tax and agreements with creditors on interest for recharged purchase prices from the 2013 financial year.

Personnel expenses fell by EUR k 6,036 to EUR k 17,358 in the 2014 financial year. This was mainly due to the restructuring of the company in 2013 and the resultant EUR k 6,855 in settlement expenses recognised under personnel expenses in 2013. A total of 77 staff were made redundant in 2014, 25 of whom as at 31 December 2014. The share-based payment of EUR k 3,438 which resulted from the IPO and was paid by the previous sole shareholder, and EUR k 158 which had to be taken into account as proportional remuneration for 2014 from the new Management Board contracts served to increase personnel expenses.

In contrast, other operating expenses increased by a total of EUR k 7,905 to EUR k 15,717, essentially due to the expenses in connection with the IPO of the company. The reversal of the provision of EUR k 2,284 for the legal dispute with the Leipzig Employment Agency – the court found in favour of TLG IMMOBILIEN – decreased the expenses.

In the 2014 financial year, the interest expenses were reduced significantly due to the refinancing of loans, the restructuring of interest hedges and the repayment of a shareholder loan. This fell by EUR k 11,699 to EUR k 23,688 compared to the previous period, in spite of a significant overall increase in liabilities to banks.

The adjustment of the market value of derivatives resulted in changes to the fair values of the interest hedges for which, under IAS 39, there is no hedging relationship between the underlying and hedge transactions on the statement of financial position. Due to the dissolution of old interest hedges in March 2014 and the creation of new hedges, all interest hedges met the necessary hedge accounting requirements of IAS 39 as at 31 December 2014.

With regard to the calculation of income taxes, the relief provided for in § 6b of the German Income Tax Act (EStG) was utilised for disposals where the proceeds amounted to at least EUR k 100 after factoring in any costs of disposal. Provisions for current income taxes from 2013 were reversed by allocating the relief amounts to the reinvestment reserve ("6b-Rücklage"). Deferred income tax liabilities were recognised as a result. Therefore, the taxes consist of tax income of EUR k 33,830 and deferred taxes of EUR k 65,459.

FFO changes

in EUR k	1.1.2014–31.12.2014	1.1.2013–31.12.2013	Change	Change in %
Group income for the period	**88,650**	**99,132**	**-10,482**	**-10.6**
Income taxes	31,629	47,291	-15,662	-33.1
EBT	**120,279**	**146,423**	**-26,144**	**-17.9**
Result from the disposal of investment property	-3,291	-494	-2,797	N/A
Result from the disposal of inventory	-7,320	-7,777	457	-5.9
Result from the remeasurement of investment property	-52,694	-72,237	19,543	-27.1
Gain/loss from the remeasurement of derivatives	2,129	-6,899	9,028	N/A
Other effects*	2,792	-6,777	9,569	N/A
FFO before taxes	**61,895**	**52,239**	**9,656**	**18.5**
Income taxes	-31,629	-47,291	15,663	-33.1
Deferred taxes	65,459	9,810	55,649	N/A
Correction of tax effects from the disposal of property, the redemption of interest rate hedge transactions and from IPO expenses	-43,355	31,371	-74,726	N/A
FFO after taxes	**52,370**	**46,129**	**6,241**	**13.5**
Number of shares (in thousand)	53,794	52,000		
FFO per share	**0.97**	**0.89**	**0.08**	**9.0**

* The other effects include
a) The depreciation of IAS 16 property (owner-occupied property) (EUR 0.3 mn, previous year: EUR 0.3 mn)
b) Share-based payments to the Management Board (EUR 3.6 mn, previous year: EUR 0 mn)
c) Income from the service contract with TAG Wohnen which expired in 2014 (EUR 0.6 mn, previous year: EUR 1.6 mn)
d) Personnel restructuring expenses (EUR 0.5 mn, previous year: EUR 6.9 mn)
e) IPO costs (offset upon reimbursement) (EUR 1.2 mn, previous year: EUR 0 mn)
f) Share deal transaction costs (EUR 0.2 mn, previous year: EUR 0 mn)
g) Income from the reversal of provisions for reclaimed subsidies by the Leipzig Employment Agency (EUR 2.3 mn, previous year: EUR 0 mn)
h) Result from shares in the joint venture Altmarktgalerie Dresden which were sold in 2013 (previous year: EUR 0 mn, previous year: EUR 2.1 mn)
i) Income from the reversal of provisions for real estate transfer tax formed in connection with the splitting off of TLG Wohnen (EUR 0 mn, previous year: EUR 5.4 mn)
j) Income from the reversal of liabilities and provisions in connection with not repaying interest or the remaining purchase price under an agreement made in the 2013 financial year (EUR 0 mn, previous year: EUR 4.7 mn).

The funds from operations (FFO) are a significant control parameter for the TLG IMMOBILIEN Group. FFO in 2014, adjusted for significant extraordinary results, was EUR k 52,370, which represents an increase of 13.5% or EUR k 6,241 over 2013. FFO per share amounted to EUR 0.97.

The group income for 2014, which was lower than in the previous year, stands in contrast to fewer adjustments made for measurement gains and losses and a higher tax burden. As a result, the considerable increase in FFO compared to the same period in the previous year is predominantly due to the lower interest expenses and the cost-cutting measures in connection with expenses and personnel. Funds from operations are an important indicator for the sustainable performance of the company.

2.3.2 Financial position

The following table represents the condensed financial position and capital structure. Liabilities and receivables due in more than one year have all been categorised as long-term.

Financial position

in EUR k	31.12.2014	31.12.2013	Change	Change in %
Investment property/prepayments	1,495,509	1,417,398	78,111	5.5
Deferred tax assets	3,006	3,548	-542	-15.3
Other long-term fixed assets	24,256	27,181	-2,925	-10.8
Long-term financial assets/interests in joint ventures	2,475	0	2,475	N/A
Cash and cash equivalents	152,599	138,930	13,669	9.8
Other short-term fixed assets	60,155	48,638	11,517	23.7
Total assets	**1,738,000**	**1,635,695**	**102,305**	**6.3**
Equity	747,964	801,036	-53,072	-6.6
Non-current liabilities	758,669	542,105	216,564	39.9
Deferred tax liabilities	150,463	88,140	62,323	70.7
Current liabilities	80,904	204,414	-123,510	-60.4
Total equity and liabilities	**1,738,000**	**1,635,695**	**102,305**	**6.3**

In 2014 the investment property increased by 78,111 to EUR k 1,495,509, driven essentially by the acquisition of the "Forum am Brühl" in Leipzig and the office building in Kaiserin-Augusta-Allee and Köpenicker Strasse 30 in Berlin.

The development of the investment property resulted from the adjustment of the fair value (EUR k 52,694), acquisitions (EUR k 93,082), the capitalisation of construction measures (EUR k 12,320) and reclassifications as assets classified as held for sale (EUR k -86,635). Additionally, reclassifications from tangible fixed assets (EUR k 3,445) and additions to prepayments (EUR k 3,205) were factors.

Financing and liquidity

As at the end of 2014, the liabilities had a different maturity structure in comparison to 31 December 2013. The long-term liabilities to banks increased by EUR k 218,100, whereas the short-term liabilities to banks fell by EUR k 73,880. This was due to the comprehensive restructuring of the loan financing by means of refinancing, new long-term loans and the repayment of mature loans, especially acquisition financing.

Net Loan-to-Value (Net-LTV)

EUR k	1.1.2014–31.12.2014	1.1.2013–31.12.2013	Change	Change in %
Investment property (IAS 40)	1,489,597	1,414,691	74,906	5.3
Advance payments on investment property (IAS 40)	5,912	2,707	3,205	118.4
Owner-occupied property (IAS 16)	12,921	16,464	-3,543	-21.5
Non-current assets classified as held for sale (IFRS 5)	21,991	17,817	4,174	23.4
Inventory (IAS 2)	1,477	13,385	-11,908	-89.0
Real estate	**1,531,898**	**1,465,064**	**66,834**	**4.6**
Liabilities to banks	770,447	626,227	144,220	23.0
Cash and cash equivalents	152,599	138,930	13,669	9.8
Net debt	**617,848**	**487,297**	**130,551**	**26.8**
Net Loan-to-Value (net LTV) in %	**40.3**	**33.3**	**7.0 pp**	**21.0**

The net Loan-to-Value ratio (net LTV) is a key internal control parameter for the company. It was 40.3% in the Group as at the reporting date. It therefore increased by 7.0 percentage points since 31 December 2013, essentially due to the acquisition of new loans in order to optimise the capital structure and the distribution to the shareholders which took place in the reporting year. In the current financial year, the Group aims to continue securing access to outside capital at reasonable financing costs whilst not exceeding a reasonable proportion of outside capital.

The liquid capital increased by EUR k 13,669 to EUR k 152,599 in the reporting period. The net cash flow of liabilities to banks (EUR k 144,220), the capital increase (EUR k 100,000), profits from the ongoing operational management of properties (EUR k 20,534) and the revenue from sales (EUR k 85,751) had a positive effect on the liquid capital. Distributions of EUR k 233,000 to the shareholders and higher disbursements for investments in fixed assets (EUR k 106,289) were just two factors which had a negative effect on the liquid capital.

Structure of the statement of financial position and EPRA Net Asset Value

As at 31 December 2014, the balance sheet total had increased by EUR k 102,305 to EUR k 1,738,000.

The assets side is dominated by investment property. Compared to the previous year, the proportion of investment property in the total assets fell slightly from 86.7% to 86.0%, mainly due to the EUR k 13,669 increase in liquid capital.

The equity of the Group is EUR k 747,964 and fell by EUR k 53,072, whereas the liabilities of the Group increased by EUR k 155,377. The equity fell due to distributions of EUR k 233,000 to the shareholders. The EUR k 100,000 increases in the subscribed capital and capital reserves resulting from the capital increase in exchange for cash contributions on 24 October 2014 (the IPO) and the comprehensive income of EUR k 76,818 had a positive effect on equity. The equity comprises EUR k 2,569 in non-controlling capital interests which are attributable to minority shareholders.

Equity ratio

EUR k	1.1.2014–31.12.2014	1.1.2013–31.12.2013	Change	Change in %
Equity	747,964	801,036	-53,072	-6.6
Total equity and liabilities	1,738,000	1,635,695	102,305	6.3
Equity ratio in %	**43.0**	**49.0**	**-6.0 pp**	**-12.2**

The equity ratio fell by 6.0 percentage points to 43.0% compared to 31 December 2013, essentially due to the reduction of equity caused by distributions to the shareholders and borrowing.

EPRA Net Asset Value (NAV)

EUR k	1.1.2014–31.12.2014	1.1.2013–31.12.2013	Change	Change in %
Equity [1]	745,395	801,036	-55,641	-6.9
Fair value adjustments of fixed assets (IAS 16)	3,918	3,786	132	3.5
Fair value adjustment of inventory (IAS 2)	588	5,346	-4,758	-89.0
Fair value of financial instruments	17,814	18,773	-959	-5.1
Deferred tax assets	-3,006	-3,548	542	-15.3
Deferred tax liabilities	150,463	88,140	62,323	70.7
Goodwill	-1,164	—	-1,164	N/A
EPRA Net Asset Value (NAV)	**914,008**	**913,533**	**475**	**0.1**
EPRA NAV per share (in EUR)	14.91	17.57		
FFO/EPRA Net Asset Value (in %)	5.7	5.0		

[1] Adjusted for non-controlling interests

The EPRA Net Asset Value (EPRA NAV) is another major control parameter of TLG IMMOBILIEN and was EUR k 914,008 as at the end of 2014. The EPRA NAV increased by EUR k 475 since 31 December 2013. Unlike the change in equity which is driven mainly by distributions, the deferred tax liabilities contribute to this development.

The EUR k 62,323 increase in deferred tax liabilities to EUR k 150,463 mainly resulted from the formation of the aforementioned reinvestment reserve (6b-Rücklage) for the proceeds from sales and the measurement of investment property.

2.3.3 Financial performance indicators

Cash flow statement

The following cash flows ultimately led to an increase in cash funds at the end of the year:

in EUR k	31.12.2014	31.12.2013	Change	Change in %
1. Cash flow from operating activities	20,533	13,839	6,694	48.4
2. Cash flow from investing activities	-20,538	220,892	-241,430	-109.3
3. Cash flow from financing activities	13,674	-156,329	170,003	-108.7
Net change in cash funds	**13,669**	**78,402**	**-64,733**	**-82.6**
Cash and cash equivalents at beginning of period	138,930	60,527	78,402	129.5
Cash and cash equivalents at end of period	152,599	138,930	13,669	9.8

The EUR k 6,694 increase in cash flows from operating activities compared to the previous year essentially resulted from the EUR k 9,823 decrease in interest paid. Higher income tax payments of EUR k 3,138 had the opposite effect.

The fall in cash flows from investing activities reflect the EUR k 105,900 lower inflows from the disposal of investment property. On the other hand, cash receipts of EUR k 71,214 were generated by the disposal of shares in the joint venture Altmarktgalerie Dresden KG, Hamburg, in the previous period.

Furthermore, disbursements for the acquisition of approximately 94.9% of the shares of TLG FAB S.à r.l., the assumption of loans receivable in connection with the acquisition and the reversal of EUR k 31,926 in liabilities to banks in connection with the acquisition had an effect. The disbursements for investments in fixed assets also increased considerably by EUR k 17,341, especially due to the acquisition of additional properties.

The cash flows from financing activities essentially comprise the distributions of EUR k 233,000 to the shareholders and the EUR k 100,000 inflows through the capital increase in connection with the IPO of TLG IMMOBILIEN. The EUR k 256,214 taken out in new loans is at the same level as the previous year, although the disbursements of EUR k 109,540 in loan repayments were EUR k 319,793 lower than the disbursements in 2013, primarily due to the repayment of the loan assumed by the shareholder in 2013.

Overall, the cash funds increased by EUR k 13,669 due to the cash flows described above. The cash funds consist entirely of liquid funds.

EBITDA calculation

in EUR k	1.1.2014–31.12.2014	1.1.2013–31.12.2013	Change	Change in %
Net income	**88,650**	**99,132**	**-10,482**	**-10.6**
Income taxes	31,629	47,291	-15,662	-33.1
EBT	**120,279**	**146,423**	**-26,144**	**-17.9**
Net interest	-23,688	-35,387	11,699	-33.1
Income from joint ventures	0	2,134	-2,134	-100.0
Gain/loss (-) from the remeasurement of derivatives	2,129	-6,899	9,028	N/A
EBIT	**146,096**	**172,778**	**-26,682**	**-15.4**
Depreciation	1,236	1,461	-225	-15.4
Result from the remeasurement of investment property	52,694	72,237	-19,543	-27.1
EBITDA	**94,638**	**102,001**	**-7,363**	**-7.2**

The decline in EBITDA in 2014 compared to the previous year was essentially due to the lower results from the remeasurement of investment property.

2.3.4 Non-financial performance indicators

As at 31 December 2014, 133 staff were employed at TLG IMMOBILIEN and twelve staff were employed at its associated companies (not including apprentices or inactive employment contracts). The average length of service at TLG IMMOBILIEN is 14 years.

Every year, young specialists prepare to work at TLG IMMOBILIEN as part of its apprenticeship programme. The company currently employs eleven apprentices. These focus on cooperative education in the field of real estate. In order to nurture their initiative, TLG IMMOBILIEN provides its employees with the time and money they need in order to improve their knowledge and hone their skills as part of specialised further education courses and part-time studies. It also regularly organises specialised workshops designed to refresh its employees' knowledge.

TLG IMMOBILIEN traditionally maintains good long-term relationships with its tenants. This is reflected in long-term rental agreements with stable rental income. With its two high-performance branches – the North branch based in Berlin covering Berlin, Brandenburg and Mecklenburg-Western Pomerania and the South branch in Dresden covering Saxony, Saxony-Anhalt and Thuringia – TLG IMMOBILIEN has exceptional regional networks in the growth regions of East Germany. The staff in these branches have solid market experience and close relations with a number of private and institutional market participants. This allows TLG IMMOBILIEN to present itself as a reliable long-term partner to commercial tenants, investors and local authorities.

TLG IMMOBILIEN is aware of the political significance of the real estate sector. It is therefore an active member of the German Property Federation (ZIA), Germany's leading property federation and the only one to be represented in the Federation of German Industry (BDI). Additionally, Niclas Karoff is the spokesperson for the regional board of the ZIA in East Germany.

3. STATEMENT OF EVENTS AFTER THE REPORTING DATE

The following significant events took place between the reporting date (31 December 2014) and the date on which the report was generated (19 March 2015):

In February 2015, the transfer of benefits and encumbrances took place for the retail park on the Adlergestell in Berlin, which was acquired for approximately EUR 33 mn (including ancillary costs) in the fourth quarter of 2014.

Additionally, the company signed the purchase agreement for a modern office property on Ferdinandplatz, in the inner city of Dresden, in February 2015. This property, which was acquired for around EUR 11.2 mn (including ancillary costs) was handed over in early March 2015.

4. RISK, OPPORTUNITY AND FORECAST REPORT

4.1 RISK AND OPPORTUNITY REPORT

4.1.1 Risk management system

In order to manage the standard risks which are inherent in business activities in this sector, TLG IMMOBILIEN AG has introduced a risk management system which meets the legal requirements (of the Stock Corporation Act (AktG) and the Company Controls and Transparency Act (KonTraG)) and the requirements of the German Corporate Governance Code.

This system continuously assesses and monitors risks in order to counter ominous developments before they occur. The risk management system monitors and assesses the risks in processes, and the internal and external auditors monitor and assess the general risks. The risk management system is adapted and expanded whenever the general conditions change. The auditor also audits the early risk detection system together with the annual financial statements in accordance with § 317(4) of the German Commercial Code (HGB).

During the 2014 financial year, the successful IPO of TLG IMMOBILIEN AG required that the risk management system be adapted.

This process ultimately reduced the number of individual risks from 35 to 25. Risks resulting from the past development of the company that had become irrelevant were no longer taken into account. Furthermore, some new individual risks were taken into consideration. Risks will now be categorised into two monitored fields: property and company.

As an integrative component of all corporate processes, the risk management system follows an iterative circuit with the following processes:

- Risk identification
- Risk analysis and quantification
- Risk communication
- Risk management and
- Risk control

Risk identification

Risks are identified at the locations of TLG IMMOBILIEN using the "bottom up" method. The risk situation at the locations, in the various departments and to which TLG IMMOBILIEN as a whole is exposed is assessed, discussed and summarised by risk management and the risk officers.

Then, using the summarised information provided by the risk officers, the risk management of TLG IMMOBILIEN compiles an inventory of risk by grouping the individual risks into risk types.

In terms of organisation and human resources, the risk management is based at the main offices of TLG IMMOBILIEN. However, the various locations, departments and subsidiaries are also involved due to the expertise required to deal with the major risk factors on a daily basis.

Besides the risk officers, all employees of the company can and are obliged to immediately submit an urgent risk report – together with substantial proposed measures – to the risk managers and Management Board if they should become aware of any extraordinary circumstances.

Since the previous year, the risk management system was adjusted in order that the risk types are now allocated to one of the two monitoring fields, company and property, based on their proximity to operative business:

Risk analysis and quantification

All risks were assessed on a quarterly basis, with a risk horizon of 12 months and on the basis of the potential loss and probability of occurrence. As in the previous year, the probability of occurrence is quantified as follows:

- Negligible: 0% to 10%
- Low: > 10% to 25%
- Medium: > 25% to 50%
- High: > 50%

In light of the new general conditions of the company, the loss classes were adjusted in 2014. Losses are now categorised as follows:

- Negligible: up to EUR 0.3 mn
- Low: > EUR 0.3 mn to EUR 1.0 mn
- Medium: > EUR 1.0 mn to EUR 5.0 mn
- High: > EUR 5.0 mn to EUR 10.0 mn

The reference values for the estimation of each loss were derived from the business plan for 2015.

The loss categories and probabilities of occurrence produce a 16-field matrix. This matrix converts the analysis into a solid amount of damage, i.e. the value at risk. The value at risk of TLG IMMOBILIEN is calculated by the risk management by aggregating the various risk types.

The changes in the aggregate total risk of TLG IMMOBILIEN (the value at risk) are measured in line with IFRS in the equity of the TLG IMMOBILIEN Group, on a quarterly basis, relative to the last quarterly or annual financial statements. Covenant agreements which are a component of many loan agreements of TLG IMMOBILIEN are taken into consideration. These agreements normally set out a minimum equity ratio which the company must maintain.

The aggregate value at risk was lower than its reference value in the financial year. The existence of the company was not in jeopardy during the financial year.

From 2014, the effects on liquidity are taken into account in the form of a separate liquidity risk, which replaces the estimated liquidity impact for every individual risk.

Risk communication

Besides an annual risk report on the development of each risk in the financial year ended, the Management Board of TLG IMMOBILIEN receives quarterly reports on the risk situation of the company. These reports cover all risk types. Any urgent risk reports that were filed are documented in the monthly control report.

The quarterly report contains information on the aggregate value at risk as well as significant risks. "Significant risks" include risks with medium or high potential losses and probabilities of occurrence.

Risk management

Measures designed to avoid, prepare for, limit, reduce, pass on or compensate for risks are an active component of the risk management system.

The conception of risk-reducing measures is an important component of the risk management system of TLG IMMOBILIEN. These measures and their degree of success are documented.

Risk control

The plausibility of changes to the estimated risks is examined by the risk management. On an annual basis, the central risk management checks the suitability of the existing risk management system for the business model of TLG IMMOBILIEN. If necessary, conceptual changes and developments take place.

The internal auditors ensure that the documentation, assessment and reporting processes of the risk management system are effective and in order. If any process should prove to be unsatisfactory, recommendations are made on how to proceed.

A scheduled audit of the risk management system was carried out in the 2014 reporting year.

4.1.2 Risk report and individual risks

The business activities of TLG IMMOBILIEN are exposed to general economic risks as well as specific inherent risks. Individual risks – and components of the risk management system – which could have a significant impact on the assets, financial and earnings position of the Group are described below. The risks have been categorised as either property risks or company risks.

Market risks which are subject to the economic situation and changes on the capital and property markets are of particular significance. They cannot be controlled by the company and depend on a range of factors, such as interest rate fluctuations, inflation, rent prices and rising or falling demand on the transaction market. They can have a far-reaching impact on parameters including property values, vacancy rates, transaction volumes and liquidity.

In terms of the fair value of the property portfolio which is reflected by the market values, there is a risk that unexpected value adjustments will have to be made on the statement of financial position. A deviation of just one or two percent from the previous market value of the property portfolio can have a considerable impact on the income statement. At the end of each quarter, independent external experts carry out a systematic assessment in order to identify problematic developments in good time.

In order to minimise the valuation risk, TLG IMMOBILIEN carries out tenant-oriented property management, implements necessary tenant improvements and other technical measures and ensures that its portfolio optimisation is consistent in line with its corporate strategy. In the 2014 financial year, the market value calculation did not produce any indicators of a significant devaluation of the property portfolio.

As the rent situation essentially determines the market value, the valuation risk was estimated to have a medium probability of occurrence due to the good rent situation at the moment.

In addition to the risks in the market environment, the business activities of TLG IMMOBILIEN are influenced by changes in the general legal framework. For example, this might be landlord and tenant or tax legislation. As no specific, quantifiable risks are identifiable in upcoming or expected legislative changes, this risk has been rated as having a medium potential loss and a negligible probability of occurrence.

Property-specific risks

Marketing risk

The marketing risk is dependent on the prices on the property market and on the levels of supply and demand. Difficult financing conditions, hesitant lenders and unforeseeable events can stifle the market and impede the progress of TLG IMMOBILIEN towards its objectives. The Group carries out real estate transactions by means of standard process steps. These include clearing sales obstacles, meeting certain approval requirements and determining contaminated sites. The transaction teams have access to sample rental agreements as a basis for purchase agreement negotiations. Due to the dramatic variations in the level of demand, especially in terms of regional locations, this risk has been rated as having a medium potential loss and a medium probability of occurrence.

Bad debt from sales and leasing

TLG IMMOBILIEN endeavours to minimise the risk of bad debt from sales and leasing by carefully selecting its contractual partners. Additionally, standard hedging instruments such as guarantees, fixed charges, suretyships, letters of comfort, deductions and deposits are used when necessary. Structured claims management is also used to counter potential bad debt.

The bad debt risk of receivables from sales was rated as having a medium potential loss and a negligible probability of occurrence at the end of the reporting year due to the lack of contractual rescissions or insolvency on the part of purchasers so far.

The risk of bad debt from operational management was rated as having a medium potential loss and a low probability of occurrence due to the highly positive track record of receivables in the past few months. The development of receivables is evaluated on a monthly basis, its context is analysed and bad debt recovery measures are implemented, such as our employees contacting tenants directly.

Vacancy risk

The vacancy risk is when a property cannot be leased or sub-leased at a reasonable price or at all. Additionally, the risk can result from tenants reducing the scope of rent or being able to effect reductions in the rent for economic reasons. The risk is subject to economic fluctuations and market cycles. TLG IMMOBILIEN counters this risk by closely monitoring the market with lease analyses, continuously monitoring expiring rental agreements, regularly consulting lease brokers and maintaining a presence on various media (printed media and the Internet). As the properties in the portfolio of TLG IMMOBILIEN are almost all managed by the company itself, TLG IMMOBILIEN has close relations with its tenants which allow it to react to potential changes in tenants through prompt, proactive discussion. Therefore, the potential loss and probability of occurrence of this risk were at a medium level as at 31 December 2014.

Environment and contaminated sites

The risk of contaminated sites and the environmental risk are of significance in terms of the potential loss. For example, properties which prove to have contaminated sites–which were previously unknown–will lead to unexpected additional expenses in connection with removing any danger to public order and safety in line with the current laws and regulations. This also includes the risk under § 4(6) of the German Federal Soil Protection Act (BBodSchG). Under the Federal Soil Protection Act, as the previous owner of a plot of land TLG IMMOBILIEN is obliged to redevelop the land if ownership thereof was transferred after 1 March 1999 and if TLG IMMOBILIEN had to have been aware of harmful soil changes or contamination (eternal liability). This is also the case if the current owner cannot be called on to redevelop the land due to a lack of assets. In general, there are public declarations of exemption for environmental contamination of land in the portfolio of TLG IMMOBILIEN caused before 1 July 1990; therefore, the company is not exposed to any significant risks. Environmental contamination caused after 1 July 1990 has either been factored into the measurement of the property (thus reducing its value) or are not considered significant. The potential loss of the environmental risk and the risk of contaminated sites is considered extremely high, yet the probability of occurrence is considered negligible.

Operational management

Operational management involves the risks of non-recoverable operating costs, neglected maintenance and failure to fulfil the legal duty to maintain safety in the property.

By continuously analysing changes in vacancy rates and contractual conditions with suppliers and service providers, TLG IMMOBILIEN is striving to counter the potential risk of operating costs. The operating cost statements were issued punctually to the tenants in 2014. The potential loss from corrections effected by objections is considered negligible, as is the probability of occurrence.

The risk that necessary maintenance measures cannot be completed on time, thus resulting in unforeseen disruptions to technical or structural equipment, is always a factor. To minimise this risk, the properties are regularly inspected by employees or technicians who can promptly identify any defects and hold a reasonable dialogue with each tenant. In terms of the potential loss and probability of occurrence, this risk is considered a medium one.

The regular inspections also allow TLG IMMOBILIEN to fulfil its duty to maintain safety on the premises. Given the constant inspections, prompt service and repairs and the safety inspections, the potential loss is considered negligible. The probability of occurrence is rated as medium.

Investments

An investment strategy which continuously appreciates and optimises a portfolio through attractive acquisitions and a combination of new buildings and modernisation measures is one of the basic principles of active portfolio management. Such investment activities can involve risks of overspending, delayed completion, structural defects and the loss of construction crew contractors. TLG IMMOBILIEN will counter these risks by continuously checking the creditworthiness and reliability of construction companies and business partners and by making use of guarantees. Preceding invitations to tender and negotiations on contractual conditions and prices are an important basis. TLG IMMOBILIEN also exercises comprehensive project control – regular on-site inspections are carried out during construction work and technical due diligence processes take place during acquisitions – as well as claim management and strict deadline controls. Acquisitions are subject to predefined guidelines in the form of the strategic investment criteria of TLG IMMOBILIEN. The potential loss is considered medium and the probability of occurrence is considered low.

Subsidies

The opportunity to claim subsidies (e.g. investment subsidies and grants) occasionally arises as part of the real estate business. If a subsidy is accepted but its conditions are not met, repayment claims can be filed against the recipient of a subsidy in subsequent years. Therefore, TLG IMMOBILIEN regularly checks to ensure that it is meeting the conditions of ongoing subsidy agreements. The risk is assumed to have a medium potential loss and a negligible probability of occurrence.

Company-specific risks

Financing

Increased interest rates can result in growing financing costs for TLG IMMOBILIEN. These could lead to higher interest expenses than planned, in which regard the potential loss of the interest rate risk is considered low and its probability of occurrence is considered medium. TLG IMMOBILIEN accounts for this risk by creating interest rate hedges for loans with variable interest rates and by concluding agreements with fixed interest rates and terms spanning a number of years.

Some financing contracts include so-called financial covenants whereby the bank has an extraordinary right of termination if they are not adhered to. The parent company covers the risk of a broken covenant by regularly inspecting the covenants and, if necessary, taking steps to adhere to the covenants. A broken covenant can also be remedied by means of unscheduled repayments, for example. No covenants were broken in 2014.

As at 31 December 2014, there was a credit line of EUR k 500 which had not been utilised at any point.

Given its positive experience with the new and refinancing measures implemented with a range of banks in the 2014 financial year, and given the moderate rate of financing in relation to the market value of the property, TLG IMMOBILIEN continues to see itself as fully eligible for financing even in spite of more reluctant lending. A "credit crunch", i.e. another surge of economic and financial crises, could make banks much more cautious about providing finance.

Risk management with regard to the use of financial instruments

In 2014, interest rate hedges were re-concluded for some of the financing agreements concluded between 2006 and 2012 as well as for certain refinancing agreements concluded in 2014. These interest rate hedges meet the requirements for units of account under IFRS. The steps taken to minimise the interest rate risk are governed by guidelines. Under the guidelines, derivatives are only used for the purposes of hedging and never for trading. For the purposes of monitoring and limiting the risk, the current market values of all interest rate hedges are assessed on a monthly basis. As at 31 December 2014, 22 of 23 existing interest rate hedges are allocated to an underlying transaction (loan). Each interest rate hedge defines a fixed payable interest rate. The risk of bad debt on the part of the banks with which the interest rate hedges were created is considered low, as all of the banks have a sufficiently high credit standing.

Liquidity

The management of the Group pays special attention to liquidity in order that TLG IMMOBILIEN can meet its daily payment obligations on time. So as to avoid any future liquidity bottlenecks, a liquidity forecast for at least six months is created and updated on a rolling basis.

In general, an unsecured bridging loan can be taken out if necessary. Therefore, the potential loss and probability of occurrence of this risk are considered low.

Tax risk

The tax risk is the danger that unforeseen matters or incorrect tax documents affect the tax burden and thus the results and liquidity of the company. This applies to turnover, income, real estate and trade tax in particular, and includes the potential impact of the risk of changes to tax laws. During past audits, the financial authorities have never detected any omitted matters which could increase the tax burden of the company. The risk of significant changes to tax laws is considered low. In this regard, both risk assessment parameters are considered.

Personnel

The personnel risk is the risk of additional direct or indirect personnel expenses arising, especially if employees fail to meet qualitative or quantitative requirements or are absent for an extended period due to illness. This risk is considered negligible as the employees are distinguished by their comprehensive professional experience, outstanding expertise, motivation and commitment. The company is generally guaranteed to have sufficient personnel.

Costs of litigation, deadlines

In terms of the potential loss and probability of occurrence, this risk is considered negligible. Sufficient provisions have been made to cover the risks of ongoing proceedings. No new proceedings with a significantly high value in dispute are expected. Furthermore, deadlines are recorded in a database and in a separate calendar of deadlines. This allows the company to regularly monitor the deadlines.

Press and image

The business activities of TLG IMMOBILIEN can be impeded by negative representations in the media to such an extent that the revenue of the company is jeopardised. This can damage the TLG IMMOBILIEN brand and lower the price of its shares. Therefore, the potential loss is based on market capitalisation. The public image of TLG IMMOBILIEN is to be strengthened and improved predominantly by means of media communication, the transparency of property transactions on the capital market and increased leasing. Due to the positive image of TLG IMMOBILIEN on the capital market and the careful preparation of documents due to be published, the probability of damage to the image of the company is considered negligible.

Data and IT risks, fire/burglary/natural disasters

All aspects of business require the careful use of data. As data are entered into variety of IT systems, the data can be falsified, deleted or wrongly interpreted due to application errors, the failure to follow bookkeeping and/or work instructions, interference by third parties or external influences. This can lead to massive disruptions in the course of business and cause unfavourable conclusions to be drawn and decisions to be made. Likewise, the data in databases are at risk of falling into the wrong hands and being misused to the detriment of TLG IMMOBILIEN. The risk concerns both internal confidentiality and protection against external third parties. The risk therefore concerns the entirety of the data protection regulations, both technical and organisational. This risk also covers the general misuse of data.

In order to reduce this risk, access privileges are regularly inspected and regular plausibility checks are carried out. The company also has detailed procedures and guidelines. The IT system used for the purposes of accounting is inspected by the auditor on an annual basis. The data quality risk has been rated as having a medium potential loss and a negligible probability of occurrence.

Both aspects of the data protection risk are considered negligible as an information security management system (ISMS) is in place. The preservation of confidentiality is a major component of this system. Other data protection measures such as secure passwords and a structured access privilege assignment and revocation process are in place as part of the ISMS and are applied consistently. Another risk is that natural disasters (e.g. floods), fire or burglars could cause structural damage or disruptions and damage, destroy or steal office equipment, resources or documents – and the company is not sufficiently covered by its insurance. In order to counter this risk, the company actively implements fire and theft prevention measures at all business locations by means of secure access, alarms, regular data back-ups and security guards. The risk is considered negligible as the company normally has sufficient insurance cover.

Internal and external offences

Internal and external offences lead directly to financial damage and/or losses through image damage. The damage ranges from damage caused by internal manipulation (e.g. fraud, embezzlement, theft of cash) to external cases of fraud such as the manipulation of sales, invitations to tender and the awarding of contracts. This also includes offences in connection with the company's position on the market (insider trading). Due to the four-eye principle which is applied to all transactions and the company's internal approval and control system, this risk is considered negligible. Employees are regularly trained in issues of compliance.

4.1.3 Internal control and risk management system for the accounting process

The goal and purpose of the internal control and risk management system for the accounting process is to ensure that business transactions are recorded and disclosed correctly in line with the statutory provisions, the generally accepted accounting principles, the International Financial Reporting Standards (IFRS) and the company's internal guidelines. With consideration for the applicable legal regulations and industry standards, TLG IMMOBILIEN has introduced an internal control system for the accounting process. This system monitors the risks of the accounting process and comprises the following key principles, measures and processes designed to ensure proper accounting:

The organisational, control and management structures of TLG IMMOBILIEN are governed clearly and transparently. All of the responsibilities as part of the accounting process are clearly defined. The four-eye principle – which features a clear separation of the roles of approval and execution – is a central element of the accounting process. The accounting process is supported by standard software. Separate access and privilege concepts govern authorisations in line with the company's internal guidelines. The Group has integrated central accounting and central controlling. The Group's holistic accounting, account assignment and valuation guidelines are inspected and updated regularly.

The internal auditors monitor the effectiveness of the internal control and risk management system for the accounting process as well as the relevant processes in audits which are unaffected by processes. Likewise, the auditor of the financial statements audits the risk management system and internal control system. The Supervisory Board and audit committee base their tests of the effectiveness of the internal control and risk management system for the accounting process at TLG IMMOBILIEN on these reports.

4.1.4 General risk situation

The Management Board of TLG IMMOBILIEN considers the aggregate value at risk over the course of the 2014 financial year as typical. No threats to the existence of the company were identified in 2014. Suitable preventive and, if necessary, countermeasures were taken whenever risks with a medium or high potential loss and probability of occurrence were identified. None of the risks described above threaten the portfolios of either the individual companies or the overall Group, neither individually nor in their entirety.

4.1.5 Opportunity report

TLG IMMOBILIEN has a strong, highly diversified portfolio on the East German property market, primarily due to the regional expertise of its employees, their years of experience, their sound know-how and their constant focus on the customer. As an active portfolio manager, the company is well connected on the property market and can quickly learn and take advantage of potential third-party plans.

At the same time, due to the persistently low interest rates the company continues to enjoy good opportunities in terms of new financing and refinancing agreements at low rates.

In terms of rent and leasing, the company's years of regional market expertise might continue to generate opportunities in the future. The long-term rental agreements in the core portfolio of TLG IMMOBILIEN feature an average remaining term of approximately 7.6 years. Increasing consumer prices could have a positive effect on rental income as index adjustments are normally contractual components of the rental agreements.

4.2 FORECAST REPORT

The forecasts in the forecast report are based on expectations. The development of TLG IMMOBILIEN depends on a number of factors, some of which cannot be controlled by the company. The forecasts of the forecast report represent the current expectations of the company. These forecasts are therefore subject to risk and uncertainty. The actual performance of TLG IMMOBILIEN may vary, either positively or negatively.

4.2.1 General economic conditions and property markets

Overall economy

The German Institute for Economic Research (DIW Berlin) expects the German economy to remain strong in 2015. In fact, stronger economic growth than in 2014 is not inconceivable for 2015. Consumerism will be the main factor stimulating growth and, according to DIW, investments and foreign trade might also increase. The slump in oil prices and the favourable developments on the job market will contribute to improving the economic environment. DIW believes that the crises in Russia and the Ukraine – combined with risks to the stability of the financial markets in particular – could impede economic growth in 2015.

The positive expectations of DIW are also reflected in the Annual Economic Report published by the German government. In late January 2015 the German government revised its growth forecast for the year from 1.3% to 1.5%. The government believes that the German economy benefited from the weak euro and falling oil prices in 2015. Additionally, the German government expects another record level of employment – 42.8 mn people are expected to be employed in Germany this year.

Office property market

In light of the stable economic environment, the developments on the office property market are expected to remain positive in 2015. As the amount of available office space – which is in demand – is declining, especially in the top locations, and analyses carried out by the property network Deutsche Immobilien Partner (DIP) indicate no remarkable increase in new buildings in 2015, the top rents are expected to continue to stabilise at a high level.

Retail property market

The economic growth which accelerated again in late 2014, the relatively low unemployment rate and high buyer confidence in Germany will continue to create good general conditions for retail in 2015, especially for convenience stores. BNP Paribas Real Estate does not expect any significant increases in rent, although slight increases in various micro-locations are realistic.

Hotel property market

The stable economic developments in Germany combined with high buyer confidence and increasing numbers of overnight stays are expected to lead to more positive trends on the hotel property market. According to Colliers International, a transaction volume in excess of EUR 3.0 bn is realistic in 2015 – if supply can cope with demand – given the high level of demand and persistently low interest rates.

4.2.2 Expected business developments

Assuming that the German economy and property markets on which TLG IMMOBILIEN is active remain stable or experience positive growth, the company expects its performance to remain positive.

Therefore, the company will continue to operatively manage its property portfolio with a view to generating value. The vacancy rates are expected to remain on a similar level to those at the end of the 2014 financial year. The company expects the non-recoverable property-related expenses to develop relative to rental income in a similar way as in 2014, as long as no unforeseeable costs arise.

In 2015, TLG IMMOBILIEN plans to use its good position on its core markets to add to its property portfolio through further acquisitions which meet the company's quality and yield standards. In this context, the funds raised through the capital increase in connection with the IPO on 24 October 2014 are to be used to finance growth.

As an active portfolio manager, in 2015 TLG IMMOBILIEN will continue to work to optimise its property portfolio and dispose of non-strategic properties if the opportunities arise.

Due to its solid financing structure and low borrowing costs, TLG IMMOBILIEN expects that it will be able to borrow at attractive rates in 2015, too. As the company has no significant need to refinance in the 2015 financial year due to its long average remaining loan term, it will primarily borrow with a view to growing. Additionally, TLG IMMOBILIEN plans to keep the net LTV within a recommended corridor of between 45% and 50% (2014: 40.3%).

The Group turnover from operational management of properties is expected to remain at the same level as in 2014 (2014: EUR 136.7 mn) in 2015, plus revenue from properties acquired in 2015.

For 2015, TLG IMMOBILIEN expects an increase in funds from operations of at least 10% over 2014 (2014: EUR 52.3 mn) if it grows as expected – which will allow for an attractive distribution to shareholders. TLG IMMOBILIEN expects the EPRA Net Asset Value, which is predominantly influenced by the development of the property portfolio, to increase slightly in 2015. This requires the company to not incur any unforeseen expenses.

5. CORPORATE GOVERNANCE

5.1 DECLARATION ON CORPORATE GOVERNANCE

The declaration on corporate compliance to be issued pursuant to § 289a HGB and the corporate governance report are available online at http://ir.tlg.de/websites/tlg/English/7100/corporate-governance-und-erklaerung-zur-unternehmensfuehrung.html. Pursuant to § 317(2) line 3 HGB, the disclosures under § 289a HGB are not included in the audit carried out by the auditor.

5.2 REMUNERATION REPORT

The remuneration report explains the structure and the amount of remuneration allocated to the Management and Supervisory Boards. It complies with the statutory regulations and the recommendations of the German Corporate Governance Code.

5.2.1 Foreword

In the 2014 financial year, the current members of the Management Board had management contracts until 23 October 2014. By resolution of the Supervisory Board on 8 September 2014, Mr Finkbeiner and Mr Karoff were appointed to the Management Board of TLG IMMOBILIEN AG, which was formed on 5 September 2014 upon the notarisation of the change of legal status to an Aktiengesellschaft (which came into effect once entered into the commercial register on 10 September 2014).

When the shares of the company became available to trade on the Frankfurt Stock Exchange (24 October 2014), the members of the Management Board received new contracts which the Chairman of the Supervisory Board, Mr Michael Zahn, was authorised to conclude by resolution of the Supervisory Board on 8 September 2014.

5.2.2 Management Board remuneration system

The remuneration system factors in the joint and personal work of the members of the Management Board to ensure sustainable corporate success. The remuneration system is based on performance and success, in which regard long-term orientation, suitability and sustainability are key criteria.

The remuneration of the Management Board comprises a fixed remuneration component (base remuneration), a variable remuneration component with a short-term incentive (STI) and a variable remuneration component with a long-term incentive (LTI). In 2014, the short-term incentive amounted to at least EUR k 150 and no long-term incentive had been paid or awarded.

in EUR k	Peter Finkbeiner	Niclas Karoff
Base remuneration	300	300
Short-term variable remuneration (STI)	200	200
Long-term variable remuneration (LTI)	250	250
Total remuneration	**750**	**750**

Fixed remuneration component

The base remuneration is paid out to the members of the Management Board in 12 equal monthly instalments.

On top of the base remuneration, the members of the Management Board receive predefined additional benefits[2].

Furthermore, the company has taken out industrial accident insurance which pays benefits if a member of the Management Board should become ill or die (in which case the benefits are paid to the member's surviving dependants) and financial loss liability insurance (D&O insurance). Under the Corporate Governance Code, the D&O insurance policy features a statutory excess which, if a claim is filed, consists of 10% of the claim, up to 1.5 times the fixed annual remuneration of the member of the Management Board in question.

Short-term incentive

The achievement rate, which is determined by comparing the progress of the member of the Management Board after one year, is the basis of the calculation of the short-term incentive.

The annual targets are defined by means of a joint agreement on objectives for the members of the Management Board; this agreement is to be proposed by the Supervisory Board for the current financial year by the time the financial statements for the financial year ended are prepared and agreed between the Supervisory Board, represented by its Chairman, and the members of the Management Board.

The achievement rate for the short-term incentive must be at least 70% and is capped at 130%. The achievement rate increases on a straight-line basis between 70% and 130%. With a 100% achievement rate, the members of the Management Board each receive 100% of the bonus.

At the end of each financial year, the Supervisory Board determines the rate of joint achievement for the members of the Management Board.

The short-term incentive is payable in the salary statement issued for the month after the preparation of the financial statements.

Long-term incentive

In addition to a short-term incentive, the members of the Management Board are entitled to a long-term incentive based on the long-term performance of the company. The achievement rate for the long-term incentive is based on the achievement of the agreed targets at the end of every 4-year period. The achievement rate is determined by assessing the level of progress towards the targets.

[2] The members of the Management Board receive additional fringe benefits: these essentially comprise a company car, insurance premiums and the reimbursement of travel expenses, as well as payments to cover the costs of any second business address.

The key parameters for the long-term incentive are the performance of the EPRA NAV (per share in EUR)–as defined in the prospectus published for the IPO–of the company (NAV per share) from 1 January of the first of the four years to 31 December of the last of the four years (NAV development), as well as the performance of the company's shares in relation to the FTSE EPRA/NAREIT Europe Index (or a similar index) from 1 January of the first of the four years to 31 December of the last of the four years (relative strength index). The parameters are weighted against one another in a ratio of 50% (NAV development) and 50% (relative strength index).

The NAV development is defined in a corridor of between 100% (no increase in the NAV per share) and 250% (corresponds to a 150% increase in the NAV per share). With an achievement rate of 100%, the member of the Management Board will receive 100% of the portion of the bonus attributable to the NAV development. The achievement rate increases on a straight-line basis between 100% and 250%. Under 100%, the achievement rate of the member of the Management Board for the portion attributable to the NAV development will fall by the percentage by which the target was missed; the achievement rate is capped at 250%.

The relative strength index is defined in a corridor of between 100% (i.e. the shares of the company performed the same as the index) and 250% (i.e. the shares of the company performed 1.5 times better than the index) relative to the index. With an achievement rate of 100%, the member of the Management Board will receive 100% of the portion of the bonus attributable to the relative strength index. The achievement rate increases on a straight-line basis between 100% and 250%. Under 100%, the achievement rate of the member of the Management Board for the portion attributable to the relative strength index will fall by the percentage by which the target was missed; the achievement rate is capped at 250%.

The long-term incentive is paid to the member of the Management Board with the salary statement issued for the month after the preparation of the financial statements in the fourth financial year.

The Supervisory Board is entitled to award shares in the company in lieu of some or all of the cash payment. The company is entitled to introduce a share options programme–which has yet to be defined and which is of the same economic value to the member of the Management Board–to replace the long-term incentive.

Total remuneration of the Management Board in 2014/2013

The current members of the Management Board each received a proportional bonus from the shareholders in the form of a special payment totalling EUR 1.05 mn and a transfer of shares to the value of EUR 0.3 mn for the successful IPO of the company. The payment was made by LSREF II East AcquiCo S.à r.l. and Delpheast Beteiligungs GmbH & Co. KG.

In the 2013 financial year, Mr Peter Finkbeiner was employed at Hudson Advisors Germany GmbH and received his salary from there.

In the 2014 and 2013 financial years, no advance payments or loans were granted or paid to the members of the Management Board.

Benefits received

in EUR k	Peter Finkbeiner[2]		Niclas Karoff	
	2014	**2013**	**2014**	**2013**
Fixed remuneration	300	–	300	248
Fringe benefits	80	–	16	68
Subtotal of fixed remuneration	380	–	316	316
Bonus[3]	1,350	–	1,350	0
Short-term variable remuneration (STI)[1]	0	–	170	140
Long-term variable remuneration (LTI)	0	–	0	0
Subtotal of variable remuneration	1,350	–	1,520	140
Total remuneration	**1,730**	**–**	**1,836**	**456**

[1] The variable remuneration paid to the members of the Management Board in 2014 is governed by the management contracts with TLG IMMOBILIEN GmbH which merely provide for a bonus agreement.

[2] In 2013 the benefits received were paid by Hudson Advisors Germany GmbH.

[3] The bonus for the IPO was granted by the shareholders of TLG IMMOBILIEN.

Benefits granted[1]

in EUR k	Peter Finkbeiner[2]				Niclas Karoff			
	2014	**2014 min.**	**2014 max.**	**2013**	**2014**	**2014 min.**	**2014 max.**	**2013**
Fixed remuneration	300	300	300	0	300	300	300	248
Fringe benefits	80	80	80	0	18	18	18	68
Subtotal of fixed remuneration	380	380	380	0	318	318	318	316
Bonus	2,200	0	2,200[3]	0	2,200	0	2,200[3]	0
Short-term variable remuneration (STI)	150	150		0	150	150		150
Long-term variable remuneration (LTI)	0	0	0	0	0	0	0	0
Subtotal of variable remuneration	2,350	150	2,200	0	2,350	150	2,200	150
Total remuneration	**2,730**	**530**	**2,580**	**0**	**2,668**	**468**	**2,518**	**466**

[1] In 2014 the benefits were paid under management contracts with TLG IMMOBILIEN GmbH.

[2] In 2013 the benefits were paid by Hudson Advisors Germany GmbH.

[3] Without consideration for any changes in value caused by fluctuations of the TLG share price.

Total remuneration paid by the company under the German Commercial Code (HGB)

in EUR k	Peter Finkbeiner [1]		Niclas Karoff	
	2014	**2013**	**2014**	**2013**
Fixed remuneration	300	–	300	248
Fringe benefits	80	–	18	68
Subtotal of fixed remuneration	380	–	318	316
Short-term variable remuneration (STI)	150	–	150	150
Long-term variable remuneration (LTI) [2]	1,232	–	1,232	0
Subtotal of variable remuneration	1,382	–	1,382	150
Total remuneration	**1,762**	**–**	**1,700**	**466**

[1] In 2013 the remuneration was paid by Hudson Advisors Germany GmbH.

[2] The disclosures on the long-term incentives in the total remuneration are based on the legally binding commitment made during the conclusion of the management contracts in September 2014. The total value of the long-term incentive was calculated to be EUR k 1,232 for each member of the Management Board.

In 2013, another managing director was employed whose total remuneration amounted to EUR 0.8 mn. Of this, EUR 0.1 mn was attributable to fixed components and EUR 0.2 mn was attributable to variable components. Additionally, payments totalling EUR 0.5 mn were made due to the termination of the contract.

Payments in the event of premature termination of employment

Severance packages

If the contract of a member of the Management Board is terminated prematurely, payments to that member of the Management Board may not exceed the value of two years' worth of remuneration (the severance payment cap) or the value of the remuneration for the remaining term of the contract. The severance payment cap shall be calculated on the basis of the total remuneration for the past full financial year and if appropriate also the expected total remuneration for the current financial year (see recommendation 4.2.3 of the German Corporate Governance Code). If a change of control should result in the termination of a Management Board member's contract, that member shall receive a settlement equal to 150% of the severance payment cap.

Death benefits

If the member of the Management Board should die during the term of the contract, the remuneration – including STI and LTI – shall be determined up to the date of the termination of contract as a result of death and disbursed to the member's surviving dependants in line with the management contract. Furthermore, as joint creditors the widow and children – up to the age of 25 – shall be entitled to the continued payment of all remuneration in line with section 2(1) of the management contract for the rest of the month in which the member died plus the three following months.

Supervisory Board remuneration system

The Supervisory Board was established on 5 September 2014. In line with the Articles of Association, all Supervisory Board remuneration is payable at the end of each financial year. Members of the Supervisory Board who have only been part of the Supervisory Board or one of its committees for part of the financial year will receive proportional remuneration for that financial year.

The members of the Supervisory Board receive annual fixed base remuneration of EUR k 30. The Chairman of the Supervisory Board (Mr Michael Zahn) receives 200% of this amount (EUR k 60) and the Vice-Chairman (Mr Alexander Heße) receives 150% of this amount (EUR k 45). Members of the presidential and nomination committee (Mr Michael Zahn (chairman), Mr Alexander Heße, Dr Michael Bütter) or the audit committee (Mr Axel Salzmann (chairman), Mr Michael Zahn, Ms Elisabeth Stheeman) receive fixed annual base remuneration of EUR k 5. The Chairman of each committee (Mr Zahn for the presidential and nomination committee and Mr Salzmann for the audit committee) receives 200% of this amount (EUR k 10).

Breakdown of Supervisory Board remuneration

The following remuneration was or will be paid pro rata to the members of the Supervisory Board for the 2014 financial year:

	Supervisory Board	Presidential and nomination committee	Audit committee	VAT	Total
Michael Zahn	20,000.00	2,500.00	1,250.00	4,512.50	28,262.50
Alexander Heße *	0.00	0.00	0.00	0.00	0.00
Axel Salzmann	10,000.00	0.00	2,500.00	2,375.00	14,875.00
Elisabeth Stheeman	10,000.00	0.00	1,250.00	0.00	11,250.00
Dr Michael Bütter	10,000.00	1,250.00	0.00	2,137.50	13,387.50
Dr Claus Nolting	10,000.00	0.00	0.00	1,900.00	11,900.00

* For the 2014 financial year, Mr Heße waived all claims to remuneration against TLG IMMOBILIEN.

6. DISCLOSURES RELEVANT TO ACQUISITIONS

COMPOSITION OF SUBSCRIBED CAPITAL

As at 31 December 2014, the share capital was EUR 61,302,326, comprised of 61,302,326 no-par bearer shares with a value of EUR 1.00 per share. The share capital is fully paid-in. There are no other share types. All shares provide the same rights and duties. Every no-par value share grants one vote in the general meeting. This does not include any treasury shares held by the company; these do not grant the company any rights.

MAJOR SHAREHOLDINGS

As at 31 December 2014, the Luxembourgian company LSREF II East AcquiCo S.à r.l held a total of 42.95% of the voting rights in the company. Please see the notes for information on the shareholding structure based on this voting right information.

APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGEMENT BOARD AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Members of the Management Board are appointed and dismissed in accordance with § 84 AktG. There are no significant supplementary or deviating provisions in the Articles of Association of rules of procedure. Amendments are made to the Articles of Association in accordance with the Stock Corporation Act (AktG). There are no significant supplementary or deviating provisions in the Articles of Association of rules of procedure.

AUTHORITY OF THE MANAGEMENT BOARD TO ISSUE NEW SHARES

Subject to the consent of the Supervisory Board, the Management Board is authorised to increase the share capital of the company by up to EUR 30,651,163 by issuing up to 30,651,163 new shares by 21 October 2019. (authorised capital). The shareholders are generally to be granted pre-emptive rights, although under certain circumstances the shareholders can be denied their pre-emptive rights.

Furthermore, the share capital has been increased conditionally by up to EUR 26,000,000 by the issuance of 26,000,000 new shares (contingent capital in 2014). In particular, the contingent capital increase will allow the company to provide shares to the creditors of any convertible bonds that might be issued by 24 September 2019.

For more details on the authorised capital and contingent capital, see the Articles of Association of the company.

AUTHORITY OF THE MANAGEMENT BOARD TO ACQUIRE AND UTILISE TREASURY SHARES

On 25 September 2014, the general meeting of TLG IMMOBILIEN AG authorised the Management Board to acquire treasury shares up to the value of 10% of the share capital as at the date of the resolution. This authorisation is effective until 24 September 2019. In the interests of equality, at the discretion of the Management Board the shares can be acquired on the stock exchange or by means of either a public purchase offer or a public invitation to tender sent to all shareholders.

Furthermore, the Management Board was authorised to utilise the shares acquired in this manner–subject to other conditions–as follows: (i) to withdraw shares, (ii) to resell the shares on the stock exchange, (iii) as a subscription offer to the shareholders, (iv) to sell the shares in any other way than on the stock exchange or in the form of an offer to all shareholders if the acquired shares are sold for cash at a price that is not significantly lower than the quoted price in the sense of § 186(3) line 4 AktG.

CHANGE-OF-CONTROL CLAUSES AND COMPENSATION AGREEMENTS IN THE EVENT OF A TENDER OFFER

The main agreements of TLG IMMOBILIEN AG which are contingent on a change of control concern financing agreements. The main financing agreements of TLG IMMOBILIEN contain standard provisions in the event of a change of control. In particular, these agreements contain the obligation of TLG IMMOBILIEN AG to report the change of control to the bank and the right of the creditor to terminate the loan with immediate effect and render it payable in the event of a change of control.

The contracts of the members of the Management Board also contain provisions in the event of a change of control. If a member's contract is terminated prematurely following a change of control, that member is entitled to receive payments which meet the requirements of recommendation 4.2.3 of the German Corporate Governance Code by adhering to the settlement cap provided for by the Code.

7. RESPONSIBILITY STATEMENT REQUIRED BY § 315 (1) LINE 6 HGB

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Berlin, 19 March 2015

Peter Finkbeiner
Member of the Management Board

Niclas Karoff
Member of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS DETAILED INDEX

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

as at 31 December 2014

in EUR k	Reference	2014	2013
Net operating income from letting activities	F.1	**100,263**	**106,250**
Income from letting activities		136,733	141,326
a) Rental income		114,776	118,321
b) Income from recharged utilities and other operating costs		20,552	21,637
c) Income from other goods and services		1,405	1,368
Expenses related to letting activities		36,469	35,076
d) Utilities and other operating costs		27,051	27,638
e) Maintenance expenses		5,235	5,052
f) Other expenses		4,183	2,386
Result from the remeasurement of investment property	F.2	**52,694**	**72,237**
Result from the disposal of investment property		**3,291**	**494**
Result from the disposal of inventory		**7,320**	**7,777**
a) Proceeds from the disposal of inventory		26,119	21,391
b) Book value of inventory disposed		18,799	13,614
Other operating income	F.3	**16,839**	**18,687**
Personnel expenses	F.4	**17,358**	**23,394**
Depreciation	F.5	**1,236**	**1,461**
Other operating expenses	F.6	**15,717**	**7,812**
Earnings before interest and taxes (EBIT)		**146,096**	**172,778**
Income from joint ventures		**0**	**2,134**
Financial income	F.7	**620**	**652**
Financial expenses	F.7	**24,308**	**36,039**
Gain (-)/loss from the remeasurement of derivatives	F.8	**2,129**	**-6,899**
Earnings before taxes		**120,279**	**146,423**
Income taxes	F.9	**31,629**	**47,291**
Net income		**88,650**	**99,132**
Other comprehensive income (OCI)	E.9		
thereof non-recycling			
Actuarial loss from pension obligations, after taxes		-906	-23
thereof recycling			
Change in value of hedge derivatives, after taxes		-10,926	-124
Total comprehensive income for the year		**76,818**	**98,985**
Of the consolidated net income for the period, the following is attributable to:			
Non-controlling interests		62	0
To the shareholders of the parent company		88,588	99,132
Of the total net income, the following is attributable to:			
Non-controlling interests		62	0
To the shareholders of the parent company		76,756	98,985
Earnings per share	F.10		
Undiluted in EUR		1.65	1.91
Diluted in EUR		1.65	0

CONSOLIDATED BALANCE SHEET

Assets

in EUR k	Reference	31.12.2014	31.12.2013
A) Non-current assets		**1,525,246**	**1,448,127**
Investment property	E.1	1,489,597	1,414,691
Advance payments on investment property	E.1	5,912	2,707
Property, plant and equipment	E.2	14,140	17,762
Intangible assets	E.2	1,684	872
Other non-current financial assets	E.3	2,475	124
Other assets	E.5	8,432	8,423
Deferred tax assets	E.13	3,006	3,548
B) Current assets		**212,754**	**187,567**
Inventories	E.6	1,477	13,385
Trade receivables	E.4	12,552	11,567
Receivables from income taxes	E.13	9,808	194
Financial instruments	H.1	0	15
Other current financial assets	E.3	981	4,953
Receivables and other assets	E.5	13,346	707
Cash and cash equivalents	E.7	152,599	138,930
Assets classified as held for sale	E.8	21,991	17,817
Total assets		**1,738,000**	**1,635,694**

Equity and Liabilities

in EUR k	Reference	31.12.2014	31.12.2013
A) Equity	E.9	**747,964**	**801,036**
Subscribed capital		61,302	52,000
Capital reserves		343,003	410,249
Retained earnings		354,074	339,939
Other comprehensive income (OCI)		-12,984	-1,152
Equity attributable to the shareholders of the parent company		745,395	801,036
Non-controlling interests		2,569	—
B) Liabilities		**990,036**	**834,659**
I.) Non-current liabilities		**909,132**	**630,244**
Non-current liabilities to financial institutions	E.10	731,102	513,002
Pension obligations	E.11	8,241	6,931
Non-current financial instruments	H.1	17,814	18,788
Other non-current liabilities	E.14	1,512	3,384
Deferred tax liabilities	E.13	150,463	88,140
II.) Current liabilities		**80,904**	**204,414**
Current liabilities to financial institutions	E.10	39,345	113,225
Trade payables	E.14	13,876	14,573
Other current provisions	E.12	5,691	16,193
Tax liabilities	E.13	9,607	44,287
Other current liabilities	E.14	12,384	16,136
Total equity and liabilities		**1,738,000**	**1,635,694**

CONSOLIDATED CASH FLOW STATEMENT

in EUR k	Reference	1.1.2014–31.12.2014	1.1.2013–31.12.2013
1. Cash flow from operating activities			
Earnings before tax		120,279	146,423
Non-cash income and expenses			
Result from the remeasurement of investment property	F.2	-52,694	-72,237
Depreciation	E.2	1,236	1,461
Result from the remeasurement of derivatives	F.8	2,128	-6,899
Other non-cash income and expenses		-544	2
Results of joint ventures		—	-2,134
Financial income	F.7	-620	-652
Financial expenses	F.7	24,308	36,039
Changes in net working capital			
Increase/decrease (-) in provisions	E.12	-8,908	-5,959
Gain (-)/loss from disposal of property, plant and equipment		-3,537	144
Increase (-)/decrease in inventories	E.6	10,303	8,875
Increase (-)/decrease in trade receivables and other assets	E.4/5	-8,130	4,463
Increase (-)/decrease in trade payables and other liabilities	E.14	-7,644	-33,447
Cash flow from operating activities		76,177	76,079
Operative cash flow			
Interest received		561	650
Interest paid		-47,196	-57,019
Income tax paid		-9,009	-5,871
Net cash flow from operating activities		20,533	13,839
2. Cash flow from investing activities			
Cash received from disposals of investment property		85,751	191,651
Cash received from disposals of property, plant and equipment		—	20
Cash paid for acquisitions of investment property		-58,607	-41,496
Cash paid for acquisitions of property, plant and equipment		-482	-304
Cash paid for investments in intangible assets		-245	-193
Cash paid/received in connection with the acquisition of shares in consolidated companies (net cash flow)		-47,055	—
Cash received from disposals of joint ventures		100	71,214
Net cash flow from investing activities		-20,538	220,892
3. Cash flow from financing activities			
Cash received from equity contributions	E.9	100,000	20,493
Cash distributions to shareholders	E.9	-233,000	—
Cash received from bank loans	E.10	256,214	252,511
Repayments of bank loans		-109,540	-429,333
Net cash flow from financing activities		13,674	-156,328
4. Cash and cash equivalents at end of period			
Change in cash and cash equivalents (subtotal of 1 to 3)		13,669	78,403
Cash and cash equivalents at beginning of period		138,930	60,527
Cash and cash equivalents at end of period		152,599	138,930
5. Composition of cash and cash equivalents			
Cash		152,599	138,930
Cash and cash equivalents at end of period		152,599	138,930

CHANGES IN GROUP EQUITY

in EUR k	Reference	Subscribed capital	Capital reserves	Retained earnings	Other comprehensive income		Non-controlling interests	Equity
					Reserve hedge accounting	Actuarial gains and losses		
1.1.2013		**52,000**	**151,461**	**804,278**	**—**	**-1,005**	**—**	**1,006,734**
Net income		—	—	99,132	—	—	—	99,132
Other comprehensive income (OCI)		—	—	—	-124	-23	—	-147
Total comprehensive income for the year		—	—	99,132	-124	-23	—	98,985
Withdrawals from capital reserves		—	-199,776	199,776	—	—	—	—
Distributions to shareholders		—	—	-325,177	—	—	—	-325,177
Additional contributions to capital reserves		—	20,493	—	—	—	—	20,493
Release of special reserve, Art. 27(2) DMBilG		—	—	-438,071	—	—	—	-438,071
Contributions to capital reserves		—	438,071	—	—	—	—	438,071
		—	258,787	-464,339	-124	-23	—	-205,699
31.12.2013		**52,000**	**410,248**	**339,939**	**-124**	**-1,028**	**—**	**801,035**
Net income		—	—	88,588	—	—	62	88,650
Other comprehensive income (OCI)	E.9	—	—	—	-10,926	-906	—	-11,832
Total comprehensive income for the year		—	—	88,588	-10,926	-906	62	76,818
Changes to the basis of consolidation		—	—	—	—	—	2,507	2,507
Withdrawals from capital reserves		—	—	—	—	—	—	—
Distributions to shareholders	E.9	—	-158,546	-74,453	—	—	—	-232,999
Share capital increase	E.9	9,302	90,698	—	—	—	—	100,000
Transaction costs relating to the share capital increase, after taxes	E.9	—	-2,993	—	—	—	—	-2,993
Capital contribution in connection with manager remuneration	E.9, H.4	—	3,596	—	—	—	—	3,596
		9,302	-67,245	14,135	-10,926	-906	2,569	-53,071
31.12.2014		**61,302**	**343,003**	**354,074**	**-11,050**	**-1,934**	**2,569**	**747,964**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. GENERAL INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS OF TLG IMMOBILIEN AG

1. ABOUT THE COMPANY

TLG IMMOBILIEN AG is, together with its subsidiaries (the TLG IMMOBILIEN Group), among the largest real estate companies in Berlin and East Germany. The main activities of the Group are the conclusion of real estate transactions and any type of related business, especially the operational management, letting, construction, conversion, acquisition and sale of commercial real estate in the broader sense, especially offices, retail properties and hotel properties, the development of real estate projects and the provision of services in connection with these corporate activities, either itself or through companies in which the company holds a stake.

The financial statements of TLG IMMOBILIEN AG, Berlin, (hereinafter referred to as TLG IMMOBILIEN or the parent company) a German public limited company based in 10117 Berlin, Hausvogteiplatz 12, registered in the Berlin commercial register under HRB 161314 B, and its fully consolidated subsidiaries form the basis for the consolidated financial statements for the 2014 financial year. The consolidated financial statements were prepared by the Management Board as at 19 March 2015. The Supervisory Board is expected to approve the consolidated financial statements in its meeting on 29 April 2015.

Due to the relative sizes of the Group companies, the prepared consolidated financial statements are mainly influenced by the parent company.

With the notarised resolution of transformation and entry into the commercial register in September 2014, the change in legal form from TLG IMMOBILIEN GmbH to TLG IMMOBILIEN Aktiengesellschaft (AG) was passed by the shareholders of TLG IMMOBILIEN GmbH, LSREF II East AcquiCo S.à r.l. and Delpheast Beteiligungs GmbH und Co. KG.

On 24 October 2014, the shares of TLG IMMOBILIEN were first listed on the regulated market (Prime Standard) of the Frankfurt Stock Exchange. Following this IPO, the previous shareholders disposed of the majority of their shares in the parent company.

2. BASIS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were prepared in accordance with § 315a of the German Commercial Code (HGB), with consideration for the supplementary commercial regulations, and in conjunction with the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB), as adopted by the European Union.

The consolidated financial statements comprise the consolidated statement of financial position, the statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes. The various items are explained in the notes.

The consolidated financial statements have been prepared in euros.

Unless otherwise stated, all amounts are rounded to thousands of euros (EUR k). Due to rounding, the figures reported in tables and references may deviate from their exact values as calculated.

The financial year of TLG IMMOBILIEN AG and its subsidiaries corresponds to the calendar year. The financial statements of the subsidiaries are included in the consolidated financial statements by means of standardised accounting and valuation methods and prepared on the same balance sheet date as the financial statements of the parent company.

The consolidated financial statements were prepared on the basis of reporting assets and liabilities at their amortised cost. This does not include investment property, securities held for sale and derivatives reported at their fair value on the balance sheet date.

The consolidated financial statements and Group management report are published in the electronic version of the Federal Gazette.

B. NEW ACCOUNTING STANDARDS

1. PUBLISHED AND MANDATORY INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERPRETATIONS (IFRIC)

The following International Financial Reporting Standards were applied for the first time in the 2014 financial year:

Standard / Interpretation	Contents	Applicable for financial year beginning on
IFRS 10	"Consolidated Financial Statements"	01.01.2014
IFRS 11	"Joint Arrangements"	01.01.2014
IFRS 12	"Disclosure of Interests in Other Entities"	01.01.2014
IAS 27R	"Separate Financial Statements" (revised 2011)	01.01.2014
IAS 28R	"Investments in Associates and Joint Ventures" (revised 2011)	01.01.2014
IFRS 10, IFRS 11 and IFRS 12	"Transition Guidance"	01.01.2014
IFRS 10, IFRS 12, IAS 27	"Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)"	01.01.2014
IAS 32	"Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)"	01.01.2014
IAS 36	"Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)"	01.01.2014
IAS 39	"Novation of Derivatives and Continuation of Hedge Accounting"	01.01.2014

- IFRS 10 ("Consolidated Financial Statements") focuses in particular on the possibility of de facto control in consolidation issues. The principle of control is defined and set out as a basis for consolidation. This definition is backed up by comprehensive application guidelines which list various ways in which a reporting company can be in control of a different company. The accounting requirements are set out. There were no changes in the basis of consolidation of TLG IMMOBILIEN.

- IFRS 11, published in May 2011 by the IASB, replaces IAS 31 and SIC-13. There was no impact on the consolidated financial statements of TLG IMMOBILIEN.

- IFRS 12 "Disclosure of Interests in Other Entities" stipulates the disclosures required in the notes for interests in other entities with respect to risk and significance on the net assets, financial position and results of operations. There was no impact on the consolidated financial statements of TLG IMMOBILIEN. Additional disclosures in the notes were required.

- The IASB issued the revised IAS 27 in May 2011. With the publication of IFRS 10 and IFRS 12, the scope of application for IAS 27 was limited to accounting for investments in subsidiaries, associates and joint ventures in the separate financial statements of an entity. There was no impact on the consolidated financial statements of TLG IMMOBILIEN.

- The new IAS 28 ("Investments in Associates and Joint Ventures") addresses accounting for shares in associates and joint ventures. The standard must be applied by all companies which are in joint control of an associated company or which exercise considerable influence over it. There was no impact on the consolidated financial statements of TLG IMMOBILIEN.

- The amendments to IFRS 10 clarify that no retroactive adjustments need to be made for subsidiaries which were sold in the comparative period. Additionally, the amendments limit the requirement to present adjusted comparative information to only the annual period immediately preceding the first annual period for which IFRS 10 is applied. There was no impact on the consolidated financial statements of TLG IMMOBILIEN.

- The pronouncement "Investment Entities" (amendments to IFRS 10, IFRS 12 and IAS 27) creates an exception with regard to the consolidation of subsidiaries under IFRS 10 ("Consolidated Financial Statements"). This applies if the parent company meets the criteria of an "investment entity" (e.g. certain investment funds). In accordance with IFRS 9 ("Financial Instruments") or IAS 39 ("Financial Instruments: Recognition and Measurement"), these companies would measure investments in subsidiaries at fair value through profit or loss instead of consolidating them. There was no impact on the consolidated financial statements of TLG IMMOBILIEN.

- The amendment of IAS 32 clarifies the requirements for offsetting financial assets and financial liabilities. In particular, it highlights the significance of the current legal right to offset. There was no impact on the consolidated financial statements of TLG IMMOBILIEN.

- The amendments to IAS 36 were intended to clarify the disclosures required in the notes in connection with the measurement of the recoverable amount of an impaired asset. There was no impact on the consolidated financial statements of TLG IMMOBILIEN.

- The amendment of IAS 39 permits the continuation of hedge accounting after novation of an over-the-counter (OTC) derivative as a hedging instrument. There was no impact on the consolidated financial statements of TLG IMMOBILIEN.

2. PUBLISHED, BUT NOT YET MANDATORY INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERPRETATIONS (IFRIC)

The following International Financial Reporting Standards were not applied (prematurely) in the 2014 financial year:

Standard / Interpretation	Contents	Applicable for financial year beginning on
IAS 1	"Disclosure Initiative (Amendments to IAS 1)"	01.01.2016 (not yet endorsed)
IFRS 9	"Financial Instruments"	01.01.2018 (not yet endorsed)
IFRS 10, IFRS 12 and IAS 28	"Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)"	01.01.2016 (not yet endorsed)
IFRS 10 and IAS 28	"Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)"	01.01.2016 (not yet endorsed)
IFRS 11	"Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)"	01.01.2016 (not yet endorsed)
IFRS 14	"Regulatory Deferral Accounts"	01.01.2016 (not yet endorsed)
IFRS 15	"Revenue from Contracts with Customers"	01.01.2017 (not yet endorsed)
IAS 16 and 38	"Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)"	01.01.2016 (not yet endorsed)
IAS 19	"Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)"	01.07.2014
IAS 27	"Equity Method in Separate Financial Statements (Amendments to IAS 27)"	01.01.2016 (not yet endorsed)
IFRIC 21	"Levies"	17.06.2014
Improvements	"Annual Improvements to IFRSs 2010–2012 Cycle"	01.07.2014
Improvements	"Annual Improvements to IFRSs 2011–2013 Cycle"	01.07.2014
Improvements	"Annual Improvements to IFRSs 2012–2014 Cycle"	01.01.2016 (not yet endorsed)

- The IASB published "Disclosure Initiative (Amendments to IAS 1)" in December 2014. The amendments aim to address perceived impediments to preparers exercising their judgement in presenting their financial reports. This is currently not expected to impact the consolidated financial statements of TLG IMMOBILIEN.

- IFRS 9 contains new regulations on the classification and measurement of financial assets. There are only two measurement categories (amortised cost and fair value). The section, which was supplemented in October 2010, governs the classification and measurement of financial liabilities. It essentially retains the existing rules of IAS 39. The changes affect financial liabilities measured at fair value. The amendments introduced in November 2013 concern the use of a new general hedge accounting model in which the scope of possible hedging and underlying transactions is expanded and which includes new effectiveness assessment regulations. The amendments will most likely come into effect on 1 January 2018, at the earliest. The application of IFRS 9 will probably have an impact on the way the TLG IMMOBILIEN Group accounts for financial instruments; this impact is currently being analysed.

- The amendments to IFRS 10, IFRS 12 and IAS 28 address issues that have arisen in the context of applying the consolidation exception for investment entities. These amendments were issued by the IASB in December 2014. This is currently not expected to impact the consolidated financial statements of TLG IMMOBILIEN.

- Under the amendments to IAS 28/IFRS 10, a gain or loss is to be recognised in full on the loss of control of a business, regardless of whether or not the business belongs to a subsidiary. This is currently not expected to impact the consolidated financial statements of TLG IMMOBILIEN.

- The amendments to IFRS 11 published in May 2014 clarify that both the initial and additional acquisition of interests in a joint operation in which the activity constitutes a business must be accounted for in line with the rules on accounting for mergers in IFRS 3 and other relevant standards must be applied, unless these conflict with the rules of IFRS 11. The amendments also clarify that previously held interests in a joint operation do not need to be remeasured if additional interests are acquired whilst retaining joint control. This is currently not expected to impact the consolidated financial statements of TLG IMMOBILIEN.

- IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for "regulatory deferral account balances" in accordance with its previous GAAP. This applies both on its initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and income statement and other comprehensive income (OCI). Additionally, specific disclosures are required. This is currently not expected to impact the consolidated financial statements of TLG IMMOBILIEN.

- IFRS 15 ("Revenue from Contracts with Customers") specifies how and when an IFRS reporter will recognise revenue from a contract with a customer. The standard governs the recognition of the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The standard prescribes a five-step model. Under this model, the contract with the customer is identified first, then any performance obligations are identified in the contract. The transaction price which the entity expects to receive for its services is then determined. This transaction price is then allocated to the performance obligations in the contract. Finally, revenue is recognised when the entity satisfies a performance obligation. The potential impact of IFRS 15 on the recognition of turnover in the TLG IMMOBILIEN Group is currently being analysed.

- The amendments to IAS 16 and IAS 38 published in May 2014 clarify in particular that revenue may not be used as a basis to depreciate property, plant and equipment. This generally also applies to the amortisation of intangible assets; in this case, however, it is a rebuttable presumption. Additionally, the amendments clarify that reductions in the selling price of goods or services could indicate the existence of commercial obsolescence, which in turn could reflect a reduction in the economic benefits remaining in the asset necessary for production. This is currently not expected to impact the consolidated financial statements of TLG IMMOBILIEN.

- The amendments to IAS 19 published in November 2013 provide clarification for IAS 19.93 in terms of the treatment of employee contributions to a defined benefit plan. This is not expected to impact the pension obligations of TLG IMMOBILIEN.

- The amendments to IAS 27 restore the option to use the equity method in separate financial statements to account for investments in subsidiaries, joint ventures and associates. The amendments also clarify certain issues relating to outstanding balances with subsidiaries and joint operations. This is currently not expected to impact the consolidated financial statements of TLG IMMOBILIEN.

- The interpretation of IFRIC 21 published in May 2013 clarifies at which time an entity recognises a liability for a levy imposed by a government. This is currently not expected to impact the consolidated financial statements of TLG IMMOBILIEN.

- The IASB published "Annual Improvements to IFRSs 2010–2012 Cycle" in December 2012. They are the fifth collective standard for various amendments to six existing International Financial Reporting Standards. This is currently not expected to impact the consolidated financial statements of TLG IMMOBILIEN.

- The IASB published "Annual Improvements to IFRSs 2011–2013 Cycle" in December 2013. They are the sixth collective standard for various amendments to four existing International Financial Reporting Standards. This is currently not expected to impact the consolidated financial statements of TLG IMMOBILIEN.

- In September 2014, the IASB published its "Annual Improvements to IFRSs 2012–2014 Cycle" and amended four standards. The amendments concern IFRS 5 ("Non-current Assets Held for Sale and Discontinued Operations"), IFRS 7 ("Financial Instruments: Disclosures"), IAS 19 ("Employee Benefits") and IAS 34 ("Interim Financial Reporting"). This is currently not expected to impact the consolidated financial statements of TLG IMMOBILIEN.

C. PRINCIPLES OF CONSOLIDATION

1. CONSOLIDATION METHODS

Subsidiaries

The consolidated financial statements of the TLG IMMOBILIEN Group include TLG IMMOBILIEN AG and all subsidiaries where TLG IMMOBILIEN AG is able to exert direct or indirect control. Subsidiaries are included as of the date on which TLG IMMOBILIEN AG first acquires control. TLG IMMOBILIEN AG acquires control once the following conditions have been met:

(1) It has the power to control the relevant activities of the subsidiary
(2) TLG IMMOBILIEN AG is exposed to variable returns from these subsidiaries
(3) It is capable of influencing the variable returns with the control it possesses.

The initial application of IFRS 10 on 1 January 2014 did not lead to any changes in the basis of consolidation or consolidation methods of the TLG IMMOBILIEN Group.

Deconsolidation will take place as soon as TLG IMMOBILIEN no longer has control.

The financial statements of the subsidiaries were prepared on the same balance sheet date and using the same accounting and valuation methods as the financial statements of TLG IMMOBILIEN AG.

The capital consolidation takes place using the acquisition method, whereby the acquisition costs are offset against the equity proportional to the ownership interest on the acquisition date. Under the acquisition method, the equity of the acquired subsidiary is calculated as at the acquisition date, with consideration for the fair value of the identifiable assets, liabilities and contingent liabilities, deferred taxes and any goodwill on that date.

Non-controlling interests represent the part of the result and net assets which cannot be attributed to the shareholders of TLG IMMOBILIEN AG. Non-controlling interests are recognised separately in the consolidated statement of comprehensive income and in the consolidated statement of financial position. They are recognised in equity in the consolidated statement of financial position, separately from the equity attributable to the shareholders of the parent company.

All internal receivables and liabilities, income and expenses and profit and losses resulting from internal transactions are eliminated.

Associates and joint ventures

Associates are interests where the TLG IMMOBILIEN Group has significant influence over the company's financial and business policies. The significant influence normally comes from TLG IMMOBILIEN AG directly or indirectly holding between 20% and 50% of the voting rights in that company and the relevant rebuttable presumption not being refuted. On the balance sheet date, no associates were included in the consolidated financial statements of TLG IMMOBILIEN. Joint ventures are companies which are directly or indirectly controlled by the TLG IMMOBILIEN Group together with another party.

Joint ventures are measured at equity. However, if the shares are classified as held for sale, they are measured in line with IFRS 5 instead.

When being measured at equity, when reported for the first time interests in joint ventures are recognised in the consolidated financial statements at their acquisition costs, adjusted to reflect any changes to the net assets of the joint venture and any impairments.

TLG IMMOBILIEN AG included a joint venture, Altmarktgalerie Dresden KG, in its consolidated financial statements up to its disposal in the 2013 financial year. Additionally, until they were disposed of in the 2014 financial year, two joint ventures were recognised under other long-term financial assets and measured at fair value due to their negligible significance to the net assets, financial position and results of operations of the Group or, if the fair value cannot be calculated with a sufficient degree of reliability for unquoted equity instruments, at their acquisition costs.

Please see section H.8 for the list of shareholdings.

2. CHANGES IN THE GROUP

Number of fully consolidated subsidiaries

	2014	2013
As at 01.01	4	4
Additions	1	—
As at 31.12	**5**	**4**

Number of joint ventures at equity

	2014	2013
As at 01.01	—	1
Disposals	—	1
As at 31.12	**—**	**—**

The increase in subsidiaries in the 2014 financial year reflects the acquisition of 94.9% of the shares in EPISO Berlin Office Immobilien S.à r.l. (EPISO). Please see section C.3.

Please see section H.8 for the list of shareholdings.

3. MERGERS

With the notarised purchase agreement of 5 September 2014, TLG IMMOBILIEN AG acquired approximately 94.9% of the shares of EPISO, a company falling under Luxembourg law with headquarters in Luxembourg. Upon the transfer of the shares and with the necessary notarised appointment of the managing directors by TLG IMMOBILIEN AG on 30 September 2014 in line with Luxembourg law, TLG IMMOBILIEN AG acquired control of EPISO on 30 September 2014. With the notarised shareholders' resolution of 30 September 2014 the name of the acquired company was changed to TLG FAB S.à r.l.

TLG FAB S.à r.l. is a real estate company and is the owner and operator of the office and retail building "Forum am Brühl" in Leipzig. The office and retail building, which was built in 1996/1997 with a lettable area of 26,500 square meters and which consists of two buildings, is located in the centre of Leipzig in direct proximity to the main station, the town centre and the central public transport stops. The office and retail areas have been let to over 30 mostly high-quality tenants with long-term contracts. The seller of the company shares is a holding company under Luxembourg law with headquarters in Luxembourg.

The consideration for the acquisition of the shares is comprised as follows:

in EUR k	2014
Preliminary purchase price of the shares	14,958
Preliminary consideration for the acquisition of shares	**14,958**

As a consideration for the acquisition of the shares, the preliminary purchase price – which may still vary slightly – was paid in full within the reporting period.

Furthermore, TLG IMMOBILIEN AG assumed loans receivable and settled the following liabilities to banks:

in EUR k	2014
Acceptance of loans receivable of the current shareholder, from an affiliated company of the current shareholder and from an associate of the current shareholder	12,666
Settlement of the company's liabilities to banks	19,260
Total	**31,926**

The loans of the current shareholder were accepted in exchange for payment of the loan amount to the current shareholder in the reporting period. The liabilities to banks were settled upon payment of the redemption amounts in the reporting period.

Various processes of TLG FAB were adopted as part of the merger. As at 30 September 2014, the provisional values of the assets and liabilities assumed and measured at fair value and categorised by main groups were as follows:

in EUR k	2014
Investment property	50,000
Trade receivables	234
Other receivables and current assets	44
Cash and cash equivalents	901
Deferred tax assets	441
Total assets	**51,620**
Other non-current liabilities	1,710
Deferred tax liabilities	3,125
Trade payables	253
Other current liabilities	31,934
Total liabilities	**37,022**
Acquired net assets	**14,598**

The full goodwill method was applied to the calculation of goodwill. This method produces goodwill of EUR k 1,165, of which EUR k 59 is attributable to non-controlling interests, as illustrated by the table below:

in EUR k	2014
Preliminary purchase price of the shares	14,958
Acquired net assets of TLG	13,853
Difference between purchase price and acquired net assets	1,105
Goodwill attributable to the minority interests of TLG FAB	59
Goodwill using the full goodwill method	**1,165**

The goodwill is essentially a correcting item recognised under deferred tax liabilities.

The value that is attributable to the non-controlling interests is EUR k 805 and corresponds to the purchase price paid by the minority shareholder for the acquisition of the shares on 30 September 2014.

The fair value of the acquired receivables is EUR k 234. The fair value corresponds to the gross amount of the receivables.

Based on the current contractually agreed rents, TLG IMMOBILIEN expects rental income of approximately EUR k 3,274 in 2015.

Since 1 October 2014, the company has generated sales of EUR k 1,148 and EBITDA, including measurement gains and losses, of EUR k 1,420 (of which EUR k 1,000 was the measurement result).

Had the company been fully consolidated on 1 January 2014, there would have been additional sales of EUR k 3,054 and EBITDA of EUR k 836 in the consolidated financial statements of TLG IMMOBILIEN as of the date of initial consolidation.

In the third quarter, incidental acquisition costs of EUR k 200 were recognised through net loss under other operating expenses. Of this sum, EUR k 163 became cash items in the fourth quarter.

D. EXPLANATION OF ACCOUNTING AND VALUATION METHODS

1. INVESTMENT PROPERTY

Under investment property, TLG IMMOBILIEN recognises properties that are being retained in order to generate rental income or until they increase in value, and not for the purposes of owner occupation or sale over the normal course of business.

TLG IMMOBILIEN owns isolated properties which are partially owned-occupied and partially occupied by third parties, i.e. rented out. These mixed-use properties are accounted for separately if there is a legal way to break up the property and as long as neither the owner nor the third party occupies a negligible part.

Properties are transferred out of the investment property portfolio as soon as they start being used for a different purpose, as evidenced by the start of owner occupation or development with an intent to sell.

On the date of their addition, investment property is recognised at historical cost. As a result, the property is measured at fair value in line with the option provided by IAS 40 in conjunction with IFRS 13. IFRS 13.9 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value therefore generally implies the sale of an asset (the exit price). It corresponds to the (theoretical) price that would be paid to the (hypothetical) seller for a property on the measurement date, regardless of the company's intent or ability to sell the asset.

The fair value is generally calculated on the basis of the highest and best use of the property as described in IFRS 13.27 et seq. This refers to the maximisation of the value of the property in so far as physically possible, legally permissible and financially feasible.

All changes to the fair values of the investment property are recognised through net profit or loss under net income/loss for the period.

The fair value of the investment property was calculated on the basis of a real estate valuation for 31 December 2014 and 31 December 2013, carried out by Savills Advisory Services GmbH in late 2014/early 2015 and in late 2013/early 2014. Project developments are recognised as investment property at fair value, whenever this can be reliably determined. With real estate, fair value can normally be determined when planning permission is granted.

The fair values of the properties held over the long term in order to generate rental income or for the purposes of appreciation were calculated using the discounted cash flow method in line with international standards. Under this method, the market value of a property is the sum of the discounted cash flows of a 10-year planning period – in standard practice – plus the discounted residual value of the property at the end of the planning period on the measurement date, which in turn is calculated on the basis of the sustainable cash flows from letting activities. Properties with negative cash flows (such as properties vacant in the long term) were measured using the liquidation value method (land value minus removal expenses, plus any remaining net income).

The value of undeveloped land (illustrated in the "Other properties" asset class in E.1) was calculated using the comparative value method with consideration for the standard land values of the local committees of experts. If necessary, the residual value method was also applied in order to make the land values plausible.

Due to the limited availability of directly observable data and measurement parameters on the market, the complexity of real estate valuation and the level of specificity of real estate, the fair value measurement of investment property is categorised under Level 3 of the fair value hierarchy of IFRS 13.86 (measurements based on unobservable inputs).

In particular, the following unobservable inputs were used to measure the fair value:

- Future rental income, based on the individual locations, types, sizes and quality of the properties, with consideration for the terms of ongoing rental agreements, other contracts or external indicators such as the market rent for similar properties;
- Estimated vacancy rates based on current and predicted market conditions after the expiry of ongoing rental agreements;
- Discount rates for the 10-year planning period which reflect current market estimations in terms of the uncertainty as to the amount and occurrence of future cash flows;
- Capitalisation rates based on the individual locations, types, sizes and quality of the properties, with consideration for the market information available on the reporting date;
- Residual values, especially based on assumptions as to future maintenance and reinvestment costs, vacancy rates, market rents and growth rates.

2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are capitalised at historical cost and scheduled, straight-line depreciation is carried out based on the probable useful life. The assets are subsequently capitalised if the value in use of the property, plant and equipment increases. The useful lives and any residual values are verified and, if necessary, adjusted on an annual basis.

Subsidies are deducted during the calculation of the acquisition costs.

The scheduled depreciation takes place at the same rate across the Group and over the following useful lives:

in years	2014	2013
Owner-occupied property	50–70	50–70
Technical equipment and machinery	8–13	8–13
Other operating and office equipment	3–13	3–13

Impairment tests are carried out on the carrying amounts of the property, plant and equipment as soon as there are indicators that the carrying amount of an asset has exceeded its recoverable amount. Property, plant and equipment is removed from the books either when disposed or when no economic benefit can be expected from its continued use or sale. The gain or loss resulting from the removal of the asset from the books is recognised through net profit or loss in the consolidated statement of comprehensive income.

3. INTANGIBLE FIXED ASSETS AND GOODWILL

Intangible fixed assets are capitalised at their acquisition cost. The intangible fixed assets are software licences which have a certain useful life. After they are made available, the software licences depreciate over an expected useful life of three to five years.

The goodwill is the positive difference between the acquisition costs of the shares and the fair value of the individual assets acquired and liabilities and contingent liabilities assumed. The goodwill resulting from the allocation of the purchase price is allocated to cash-generating units which will most likely derive value from the merger. The goodwill is not subject to scheduled depreciation; it undergoes an annual impairment test instead. See section D.4 for details on the premise and execution of the impairment test by TLG IMMOBILIEN.

4. IMPAIRMENTS OF NON-FINANCIAL ASSETS

In accordance with IAS 36, the Group carries out annual tests on intangible fixed assets and property, plant and equipment to see whether or not unscheduled depreciation is necessary. These tests determine if there are indicators of a possible impairment. If such indicators exist, the recoverable amount is calculated for the asset in question. This corresponds to the higher of the fair value less costs of disposal or the value in use. If the recoverable amount of an asset is lower than the carrying amount, a valuation allowance is immediately carried out on the asset through net profit or loss.

In the financial year it was not necessary to carry out an impairment test on property, plant and equipment or intangible fixed assets with a certain useful life as no indicators of impairment existed.

For goodwill acquired through the acquisition of companies and businesses, TLG IMMOBILIEN carries out the impairment test on an annual basis at the end of the financial year and also whenever there are indicators of possible impairment.

As part of the impairment test, the goodwill acquired from a merger is allocated to every single cash-generating unit which will most likely profit from the synergy created by the merger. If the carrying amount of the cash-generating unit, including the goodwill allocated to it, should exceed its recoverable amount, the difference must be deducted from the goodwill allocated to that cash-generating unit. Reversal of an impairment loss for goodwill is prohibited. If the impairment of the cash-generating unit exceeds the carrying amount of the goodwill allocated to it, the additional impairment loss must be recognised by the proportional reduction of the carrying amounts of the assets allocated to the cash-generating unit. In this context, however, an asset may not fall below its fair value less costs of disposal, its value in use (if measurable) or zero.

The goodwill of EUR k 1,164 resulting from the acquisition of EPISO and TLG FAB S.à r.l. was subjected to an impairment test on 31 December 2014, in line with the rules of IAS 36. All of the goodwill was allocated to the cash-generating unit "TLG FAB".

The impairment test was carried out on the basis of the value in use of the cash-generating unit "TLG FAB". The value in use was derived from estimated future cash flows. These are based on the 1-year plan of TLG IMMOBILIEN for that specific cash-generating unit, as well as on estimations by the management for 4 more years (a 5-year detailed planning period overall) and the estimated final value. The estimations are primarily based on fixed contractual cash flows, experience from previous years and external forecasts on developments on the real estate market.

For the development of the net cash flows after five years, a sustainable annual increase of 1.0% was assumed in order to estimate the final value; in the view of TLG IMMOBILIEN, this does not exceed the forecast average market growth.

On the basis of a CGU-specific capital cost rate, a discount rate of 4.30% after tax (5.90% before tax) was applied to the calculation of the value in use.

In particular, the following premises on which the calculation of the value in use is based are plagued by estimation uncertainty:

- Forecast cash flows: the plan is based on fixed contractual cash flows, experience from previous years and external forecasts on developments on the real estate market, with consideration for the specific circumstances of the cash-generating unit "TLG FAB". If the free cash flow is reduced by 6.0% in the final year of the detailed planning period, the value in use will correspond to the net carrying amount.

- Discount rate: the discount rate was calculated based on assumed weighted average costs of capital for the sector. If the discount rate after taxes or before taxes is increased to 4.48% or 6.17%, respectively, the value in use will correspond to the net carrying amount.

- Sustainable growth rate: the estimation of the forecast sustainable growth rate is based on external sector-specific market analyses. If the growth rate falls to 0.80%, the value in use will correspond to the net carrying amount.

Essentially, the goodwill can be derived from the deferred tax liabilities recognised for the nominal amount in line with IAS 12.

The net carrying amount of the cash-generating unit "TLG FAB", which underwent an impairment test on 31 December 2014, amounts to EUR k 51,822 including the goodwill allocated to it. Of this amount, EUR k 51,000 is attributable to the property "Forum am Brühl" in Leipzig, which was accounted for at fair value. In accordance with IAS 36.105, the carrying amount of the various assets cannot be reduced below each asset's fair value less costs of disposal.

5. OTHER FINANCIAL ASSETS

Generally, the Group accounts for financial assets on the trading day. In accordance with IAS 39, affiliates which have not been consolidated due to their lack of significance have been categorised as "available-for-sale financial assets" for measurement purposes. Available-for-sale financial assets are measured at fair value on the balance sheet date or, if the fair value cannot be reliably determined, at cost.

6. RECOGNITION OF LEASES AS THE TENANT

Leased assets which are the economic property of the TLG IMMOBILIEN Group (finance leases in the sense of IAS 17) are capitalised under fixed assets at the lower of the present value of the lease rates or the fair value of the leased property and undergo scheduled, straight-line depreciation. The depreciation period is the shorter of the term of the lease or useful life. Whenever ownership of the asset transfers to TLG IMMOBILIEN at the end of the contractual term, the depreciation period corresponds to the useful life. A liability is recognised in the amount of the present value of the payment obligations arising from the future lease instalments. In subsequent periods, it is reduced by the redemption component in the lease instalments.

Leases where the TLG IMMOBILIEN Group has no economic ownership are categorised as operating leases. The expenses resulting from such contracts are recognised through net loss when the leased objects are used.

7. RECOGNITION OF LEASES AS THE LESSOR

Under IAS 17, rental agreements for the properties are to be categorised as operating leases as the significant risks and opportunities in connection with the property remain with the TLG IMMOBILIEN Group.

The income from operating leases are recognised as net operating income from letting activities in the statement of comprehensive income across the term of each contract.

8. INVENTORIES

Inventories includes land and buildings intended to be sold as part of the normal course of business. This can exceed a period of 12 months. Upon their acquisition, inventories are measured at historical cost. On the balance sheet date, inventories are measured at the lower of historical cost or net realisable value. The net realisable value comprises the estimated sale proceeds that can be achieved in the normal course of business, less the estimated costs accrued until completion and the estimated necessary selling expenses.

See section D.21 for the treatment of borrowing costs.

9. RECEIVABLES AND OTHER ASSETS

Trade receivables and other assets are recognised at fair value plus transaction costs when they are first added to the statement of financial position. The subsequent measurement is at amortised cost.

Past experience and individual risk evaluations are used to factor in potential risks of default by means of reasonable valuation allowances with consideration for the expected net cash flows.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash, demand deposits, other short-term, highly liquid financial assets with an original term of up to 3 months and overdrafts. Exploited overdrafts are recognised in the statement of financial position under short-term liabilities to banks. Restricted credit is recognised under financial assets if it cannot be recognised under cash and cash equivalents.

11. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

The item "Assets classified as held for sale" can contain individual long-term fixed assets as well as groups of assets (disposal groups) or corporate components (discontinued operations) if a disposal is considered highly probable within the next 12 months. Furthermore, assets are only classified in line with IFRS 5 if, in their present condition, they can be immediately disposed of at a standard and acceptable price for the sale of such assets. In practice, these criteria on individual investment properties are considered met if a notarised purchase contract exists on the balance sheet date, even if the transfer of benefits and encumbrances is due to take place in a subsequent period.

Liabilities which are being disposed of together with the planned sale are a component of the disposal group or discontinued operation, and are also disclosed separately.

In accordance with IFRS 5, the assets classified as held for sale are measured at the lower of their carrying amount or fair value. Investment property recognised under assets classified as held for sale is measured at fair value in line with IAS 40.

Long-term fixed assets and disposal groups classified as held for distribution to owners are recognised in the same way as assets classified as held for sale and liabilities.

12. LIABILITIES TO BANKS

When first included in the statement of financial position, liabilities to banks are recognised at fair value with consideration for transaction costs, premiums and discounts. In this regard, the fair value on the date the loan was granted corresponds to the present value of the future payment obligations on the basis of a congruent market interest rate in terms of risk and duration.

They are subsequently measured at amortised cost using the effective interest method. The effective interest rate is determined on the date the financial debt arises. Changes to the amounts or dates of interest and repayments of the liability shall result in the remeasurement of the carrying amount of the liability in the amount of its present value and on the basis of the original effective interest rate. Differences between this and the previous carrying amount of the liability are recognised through net profit or loss. If such changes should result in substantially different terms in the sense of IAS 39.AG 62, the original liability is treated as if it were fully repaid in line with IAS 39.40. It is then recognised as a new liability and measured at fair value.

13. PENSION OBLIGATIONS

Pension obligations result from obligations towards employees. Obligations arising from defined benefit plans are measured using the projected unit credit method. This method factors in the known pensions and earned credits toward future pension payments on the reporting date, as well as the expected future increases in salaries and pensions. The 2005G mortality tables published by Dr Klaus Heubeck serve as a biometric basis.

The pension scheme in the Group involves both defined contributions and defined benefits. The amount of the pension benefits under the defined benefit plans is based on the years of service that can be taken into account and the agreed pension component.

The Employers' Retirement Benefits Act (BetrAVG) forms the regulatory framework in Germany; pension increases are therefore based on the inflation rate. Some commitments have a guaranteed interest rate of 1.0% p.a., in which case no other trend is recognised. TLG IMMOBILIEN bears the actuarial risks such as the longevity risk, the interest risk and the inflation risk. TLG IMMOBILIEN is not exposed to any other plan-specific risks.

The remeasurement component in conjunction with the defined benefit plans, which include factors such as actuarial gains and losses from adjustments and changes to actuarial assumptions based on past experience, is reported under other comprehensive income (OCI) in the period in which it arises and then in equity under accumulated reserves.

No service costs had to be subsequently offset in either the reporting year or the previous year.

The interest rate effect contained in the pension expenses is recognised under interest expenses in the consolidated statement of comprehensive income. The service cost is recognised under personnel expenses.

14. OTHER PROVISIONS

Other provisions are formed when the TLG IMMOBILIEN Group is under a legal or virtual obligation resulting from a past event which it is likely to fulfil and the amount of which it can determine with a high degree of confidence. It is recognised based on its expected settlement value.

Long-term provisions are recognised at their discounted settlement value on the balance sheet date – if this is considerable – on the basis of risk-free interest rates befitting their terms.

15. DERIVATIVE FINANCIAL INSTRUMENTS

In the TLG IMMOBILIEN Group, derivative financial instruments are used to cover interest rate risks from real estate financing. Derivative financial instruments are recognised at fair value. Changes in the fair values of the derivatives are recognised through net profit or loss as long as there is no hedging relationship in the sense of IAS 39.

Derivatives recognised as hedging instruments cover future cash flows which are characterised by uncertainty. The TLG IMMOBILIEN Group is exposed to a risk in connection with the amount of future cash flows, especially with regard to liabilities to banks with variable interest rates. Therefore, changes to the fair value are broken down into an effective and an ineffective part. Effectiveness is determined using the dollar offset method. The effective part is the part of the measurement result which represents an effective hedge against the cash flow risk in the statement of financial position. The effective part is recognised directly to equity in other reserves (under other comprehensive income (OCI)), after accounting for deferred taxes.

The ineffective part of the measurement gains and losses is included in the statement of comprehensive income and recognised under net interest. The amounts recognised in equity are always transferred to the statement of comprehensive income if results in connection with the underlying transaction start affecting net profit or loss (recognised in net interest). If the hedging relationship is terminated prematurely, the amounts recognised in equity are recognised through net profit or loss if results in connection with the existing underlying transaction start affecting net profit or loss. If the underlying transaction ceases to exist, the amounts that are still in other comprehensive income (OCI) are immediately recognised through net profit or loss.

16. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of the financial instruments are determined on the basis of corresponding market values or valuation methods. For cash and other current primary financial instruments, the fair values correspond approximately to the carrying amounts on the statement of financial position on each key date.

With regard to non-current receivables and other assets and liabilities, the fair value is determined on the basis of the expected cash flows using the applicable reference interest rates on the date of the statement of financial position. The fair values of the derivative financial instruments are calculated on the basis of the reference interest rates plus their own risks and the counterparty risk on the accounting date.

For financial instruments to be recognised at their fair value, the fair value is generally calculated using the corresponding market and stock exchange rates. If no market or stock exchange rates are available, the fair value is measured using standard valuation methods with consideration for instrument-specific market parameters. The fair value is calculated using the discounted cash flow method, whereby individual credit ratings and other market conditions are taken into account in the form of conventional liquidity spreads when calculating the present value.

The relevant market prices and interest rates observed on the date of the statement of financial position – and obtained from recognised external sources – are used as input parameters for the valuation models when calculating the fair value of derivative financial instruments. As a result, the derivatives are categorised under Level 2 of the fair value hierarchy of IFRS 13.72 et seq. (measured on the basis of observable inputs/market data). See also section H.1.

17. FAIR VALUE CALCULATION

Under IFRS 13, the fair value is the price obtained from selling an asset or paid for transferring a liability on the principal market or, where no principal market exists, the most advantageous market. The fair value is to be calculated using measurement parameters as inputs which are as close to the market as possible. The fair value hierarchy categorises the inputs used in valuation techniques into three levels, based on their proximity to the market:

- **Level 1:** The (unadjusted) quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date
- **Level 2:** Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e. the price) or indirectly (i.e. derived from the price)
- **Level 3:** Measurement parameters based on unobservable inputs for the asset or liability

If the inputs used to measure fair value are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement.

The company checks for transfers between the levels at the end of each financial year. As in the previous year, there were no transfers between the various input levels in the 2014 financial year.
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The fair value calculation of investment property is categorised under Level 3 of the measurement hierarchy of IFRS 13.86 (measurement on the basis of unobservable input factors). We refer to the explanations on the measurement of investment property in sections D.1 and E.1. See sections D.15 and H.1 in connection with the measurement of derivative financial instruments.

In summary, the fair value hierarchy and carrying amounts are as follows for the 2014 financial year:

in EUR k	**Level 1**	**Level 2**	**Level 3**
Other non-current financial assets	—	2,475	—
Investment property	—	—	1,489,597
Derivatives with positive fair value	—	—	—
Liabilities to banks [1]	—	770,447	—
Derivatives with negative fair value	—	17,814	—

[1] The fair value of liabilities to banks has been calculated exclusively for information in the notes.

And the results of the 2013 financial year:

in EUR k	Level 1	Level 2	Level 3
Investment property	—	—	1,414,691
Derivatives with positive fair value	—	15	—
Liabilities to banks [1]	—	626,227	—
Derivatives with negative fair value	—	18,788	—

[1] The fair value of liabilities to banks has been calculated exclusively for information in the notes.

18. RECOGNITION OF INCOME AND EXPENSES

Net operating income from letting activities where the property's rental agreement or lease is classified as an operating lease is recognised as a straight line over the term of the contract. Rental concessions are recognised in net loss, under total revenue from letting activities, over the term of the rental agreement or lease.

Furthermore, the net operating income from letting activities contains income from the recharging of operating costs, in so far as the rechargeable costs and the amount of income can be reliably determined and the services have been rendered.

Net income from the disposal of property is recognised once the significant risks and opportunities associated with the property have transferred to the acquirer. The economic transfer of ownership can generally be implied once the essential ownership and operational management rights, as well as the power of disposal, have transferred to the purchaser. Turnover is not realised as long as there are still major performance obligations, yield guarantees or a right to return on the part of the purchaser.

Operating expenses are recognised through net loss when the service is rendered or on the date of their accrual.

Interest is recognised as a gain or loss on an accrual basis.

Dividends are collected on their date of distribution, in which regard the period of distribution is normally the same as the period in which a legal claim arises.

19. GOVERNMENT GRANTS

Government grants are recognised only when there is sufficient certainty that the grant will be received and that the entity will comply with the conditions attached to the grant. The grant is recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

Investment subsidiaries are grants intended to facilitate the acquisition or creation of an asset. The TLG IMMOBILIEN Group deducts them from the historical cost of the asset on the assets side of the statement of financial position. The grants are recognised pro rata by means of a reduced depreciation amount over the useful life of the asset, provided that the asset is subject to scheduled depreciation.

Ongoing subsidies intended to cover maintenance, rental and expenditure are recognised in net profit. They are recognised under other operating income.

The redemption loans and low-interest loans are property loans and are recognised as liabilities to banks. Both come with advantages over standard loans, such as low interest rates or interest or principal repayment holidays. They are generally recognised at their present value based on the market interest rate when they were taken out. The difference is recognised in a deferral account that is amortised to expenses from the loan repayment on a straight-line basis over the remaining term of the loan.

20. CURRENT AND DEFERRED TAXES

Income taxes represent the sum of current and deferred taxes.

Current tax expenses are determined on the basis of the taxable income for the year. The taxable income differs from the net income from the consolidated statement of comprehensive income due to income and expenses which are tax-deductible, untaxable or taxable in later years. The liabilities and provisions of the Group for current taxes are calculated on the basis of the current tax rates.

Deferred taxes are recognised for the differences between the carrying amounts of the assets and liabilities in the consolidated financial statements and the corresponding taxable values as part of the calculation of taxable income. Deferred tax liabilities are generally recognised for all taxable temporary differences; deferred tax claims are recognised in so far as it is likely that taxable gains exist for which the deductible temporary differences can be used. Deferred tax claims also include reductions in tax resulting in subsequent years from the expected use of existing taxable loss carry-forwards (or similar items) and whose realisation is ensured with a sufficient degree of certainty. Furthermore, deferred taxes are recognised for outside basis differences if the criteria are met.

Deferred tax liabilities and claims are calculated on the basis of the tax rates (and tax legislation) which will probably be in force when the liability is settled or the asset is realised. The tax regulations passed by the German Bundestag and Bundesrat and those in force on the reporting date are used as a reference. The measurement of deferred tax claims and liabilities reflects the tax consequences which would result from the way the Group expects to settle the liability or realise the asset on the reporting date.

Current or deferred taxes are recognised in profit and loss unless they relate to items recognised in other comprehensive income or directly in equity. In such a case, the current and deferred taxes are also to be recognised in other comprehensive income (OCI) or directly in equity.

Deferred tax claims and deferred tax liabilities are offset if the Group has an enforceable legal claim to offset actual tax refund claims against its actual tax liabilities and if the deferred tax claims and liabilities concern income tax which will be collected by the same tax office and which concerns the same tax subject.

21. BORROWING COSTS

If so-called "qualifying assets" exist, borrowing costs are capitalised if they are significant.

22. MAJOR DISCRETIONARY DECISIONS AND ESTIMATES

The application of accounting and valuation methods requires the management to make assumptions and estimates which will influence the carrying amounts of the recognised assets, liabilities, income and expenses, as well as the disclosure of contingent liabilities.

However, the inherent uncertainty of these assumptions and estimates could lead to events which will necessitate adjustments to the carrying amounts or disclosure of certain assets and liabilities in the future.

This applies to the following issues in particular:

- The measurement of investment property: The expected cash flows, the presumed vacancy rate, the discount rate and the capitalisation rate in particular represent significant measurement parameters. Items are measured using the discounted cash flow method, whereby future cash flows are discounted on the balance sheet date. These estimations contain assumptions as to the future. Given the number of properties in question and their geographical distribution, individual measurement uncertainties generally cancel one another out statistically. The measurements are made by an external valuation expert on the basis of publicly available market data (e.g. property market reports from committees of valuation experts, data published by the institute of housing, property, urban and regional development (InWIS)) as well as on the basis of the extensive knowledge of the TLG IMMOBILIEN Group in each regional sub-market.

Please see E.1 for more details.

The following general assumptions and estimates also exist, yet these are of lesser significance:

- For assets that are to be disposed of, an entity must determine whether or not they can be sold in their present condition and if their sale can be considered highly probable in the sense of IFRS 5. If this is the case, the assets–and any associated liabilities–are to be recognised and measured as assets and liabilities held for sale.

- With regard to property, based on the intended use the entity must determine whether these are to be allocated to inventories or investment property.

- Buildings involving partial own use are generally to be accounted for separately in accordance with IAS 16 and IAS 40, provided that the area occupied by the owner or third party is not negligible.

- Accounting for and measuring pension provisions: Provisions for pensions and similar obligations are determined by means of actuarial calculations. This calculation is carried out using assumed interest rates, mortality tables and future pension increases.

- Accounting for and measuring other provisions: In terms of accounting for and measuring other provisions, there are uncertainties as to future price increases and when and how likely it is that the provision will be utilised, and to what amount.

- **Recognisability of deferred tax assets:** These are accounted for if it is likely that future tax benefits will be recognised. The actual taxable results in future financial years and the actual usability of deferred tax assets might deviate from the estimation on the date the deferred taxes were capitalised.

- **Impairment test on goodwill:** An impairment test determines whether goodwill has fallen in value. The recoverable amount required for this test is calculated by determining the value in use and/or the fair value. The calculation is based on a number of assumptions, such as on growth rates or the discount rate.

- **Share-based payment:** IFRS 2 requires an entity to measure costs arising from the provision of equity instruments to employees at the fair value of the instruments on the date they were granted. The most suitable method for estimations to be made must be determined; this process is partially based on assumptions.

More information on assumptions and estimations that have been made is provided with the disclosures on the various items. All assumptions and estimations are based on the circumstances and evaluations on the balance sheet date.

Additionally, realistic expectations of the future economic situation in the sectors and regions in which the TLG IMMOBILIEN Group is active were factored into the Group's estimation of the future course of business. Although the management assumes that the assumptions and estimates used are reasonable, unforeseeable changes to these assumptions could affect the financial position, cash flows and results of operations of the Group.

23. CAPITAL MANAGEMENT

Capital management at TLG IMMOBILIEN is intended to ensure the financial resources required for the continuation of the company and the preservation of liquidity. Furthermore, the financial policies of the Group are designed to generate income for the shareholders and allow for the annual distribution of a dividend. The Group strives to increase its overall value. This holistic capital management strategy has not changed since the previous year.

As is standard in the sector, capital management is gauged by the net debt-to-equity ratio. The net debt-to-equity ratio is the ratio between net debt and the fair value of the investment property. The net debt is determined by subtracting cash and cash equivalents from liabilities to banks.

In the current financial year as in previous years, the Group aims to continue securing access to debt at reasonable financing costs whilst not exceeding a reasonable proportion of debt.

As at 31 December 2014 the debt-to-equity ratio was as follows compared to the previous year:

in EUR k	31.12.2014	31.12.2013
Investment property	1,489,597	1,414,691
Advance payments on investment property	5,912	2,707
Owner-occupied properties	12,921	16,464
Non-current assets classified as held for sale	21,991	17,817
Inventories	1,477	13,385
Real estate	**1,531,898**	**1,465,064**
Liabilities to banks	770,447	626,227
Cash and cash equivalents	152,599	138,930
Net debt	**617,848**	**487,298**
Net LTV	**40.3%**	**33.3%**

In the table above, the assets classified as held for sale only concern investment property.

The net LTV in the group is 40.3% and increased by 7.0 percentage points compared to the previous year. The capital management goals were achieved in the reporting year.

24. DISCLOSURE OF BUSINESS SEGMENTS

The business activities of TLG IMMOBILIEN revolve around the letting and operational management of its port-folio of commercial real estate. Its business activities also involve the use of market forces by acquiring and disposing of properties in order to optimise its real estate portfolio.

As part of internal reporting, these activities are allocated to the segment on the letting and operational management of the company's real estate portfolio.

Therefore, in line with the criteria of IFRS 8, a single reportable segment which encompasses the operative activities of the Group was identified. Reports on this segment are regularly submitted to the main decision-makers. The main decision-makers only determine the allocation of resources for this one segment and are responsible for verifying its earning power. The main decision-maker of TLG IMMOBILIEN is the Management Board.

Revenue is generated by a large number of tenants. In this context, turnover equal to more than 10% of the total revenue was generated by one client. Of the total revenue, EUR k 17,777 (2013: EUR k 17,539) is attributable to this client.

E. NOTES ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

1. INVESTMENT PROPERTY

The carrying amount of the investment property developed as follows in the 2014 and 2013 financial years:

in EUR k	31.12.2014	31.12.2013
Carrying amount as at 01.01	**1,414,691**	1,511,726
Acquisitions	43,082	3,591
Additions from mergers	50,000	—
Capitalisation of construction activities	12,320	36,396
Reclassification as assets held for sale	-86,635	-209,259
Reclassification as property, plant and equipment	-25	—
Reclassification from property, plant and equipment	3,470	—
Fair value adjustment	52,694	72,237
Carrying amount as at 31.12	**1,489,597**	**1,414,691**

TLG IMMOBILIEN's portfolio strategy is focused on the retail and office asset classes, as well as on hotels with long-term leases in certain prime inner-city locations, parti-cularly in Berlin and Dresden. While the office portfolio is intended to be largely limited to Berlin, Dresden, Leipzig and Rostock, the retail portfolio – which is dominated by food retail properties in the retail foodstuffs sector – is more broadly distributed. Decisions pertaining to acquisitions and disposals of properties and to necessary investments are subject to the aforementioned principles of the portfolio strategy.

In line with the growth-based corporate strategy, three attractive office properties in Berlin and Leipzig with a total investment volume of EUR k 93,082 were added to the office portfolio in 2014 (previous year: EUR k 3,591, 2 properties). After all project development properties during the previous year were reclassified as under management as at 31 December 2013, further expansion work was performed in 2014. The decline in project development activities is reflected in the amount capitalised for construction activities of EUR k 12,320 (2013: EUR k 36,396).

EUR k 86,635 (2013: EUR k 209,259) was reclassified as assets held for sale in keeping with the portfolio strategy.

As in 2013, persistently favourable market conditions made it possible in particular to sell a number of inner-city development plots at attractive prices, with the result that the EUR k 52,694 fair value adjustment in 2014 (previous year: EUR k 72,237) related to 66.0% of the assets held for sale. Properties reclassified as assets held for sale also included all sales conducted during the year, which had first been reclassified as assets held for sale and then sold off.

The fair values of investment property were as follows, broken down by valuation method and by asset class as at 31 December 2014. Prepayments on these properties are not included here; they are recognised separately in the statement of financial position.

Portfolio overview by asset class

	Investment properties	Discount rate			Capitalisation rate		
	in EUR k	Min. in %	Max. in %	Average (rated according to gross present value) in %	Min. in %	Max. in %	Average (rated according to net sales price) in %
Investment properties as at 31.12.2014							
Valuation method = discounted cash flow (DCF)							
Retail properties	663,347	3.75	15.00	6.09	5.50	33.00	8.12
Office properties	547,145	4.00	12.00	5.26	4.00	15.00	6.86
Hotel properties	191,415	4.75	6.00	5.09	6.25	6.50	6.46
Other properties	69,887	3.75	12.00	7.00	4.00	25.00	10.92
Total (DCF method)	**1,471,794**	**3.75**	**15.00**	**5.68**	**4.00**	**33.00**	**7.54**
Valuation method = liquidation method							
Retail properties	5,740	4.75	4.75	4.75	—	—	—
Office properties	230	7.50	7.50	7.50	—	—	—
Other properties	11,833	5.00	9.50	5.58	—	—	—
Total (liquidation method)	**17,803**	**4.75**	**9.50**	**5.34**	**—**	**—**	**—**
Total	**1,489,597**				**—**	**—**	**—**
Multiplier net rental	12.58						
Investment properties as at 31.12.2013							
Valuation method = discounted-Cashflow (DCF)							
Retail properties	655,994	5.00	15.00	6.25	5.50	25.00	8.16
Office properties	447,308	4.00	12.00	5.54	4.00	20.00	7.12
Hotel properties	185,611	5.00	6.25	5.61	6.25	6.75	6.48
Other properties	73,697	5.00	14.00	7.86	6.00	30.00	11.46
Total (DCF method)	**1,362,610**	**4.00**	**15.00**	**6.01**	**4.00**	**30.00**	**7.76**
Valuation method = liquidation method							
Retail properties	24,500	5.00	7.50	5.78	—	—	—
Office properties	450	7.50	7.50	7.50	—	—	—
Other properties	27,131	3.00	8.00	5.07	—	—	—
Total (liquidation method)	**52,081**	**3.00**	**8.00**	**5.43**	**—**	**—**	**—**
Total	**1,414,691**						
Multiplier net rental	12.68						

As at 31 December 2014, the fair value of the investment property totalled EUR k 1,489,597 (31.12.2013: EUR k 1,414,691). At EUR k 1,395,907 as at 31 December 2014, the properties which were in the portfolio on both 1 January and 31 December 2014 (base portfolio with no acquisitions or reclassifications) represent 94.0% of the value of the portfolio.

The 2.4% change in the value of the properties which were in the portfolio on both 1 January and 31 December 2014 (base portfolio) in comparison to 31 December 2013 is based on positive market developments, especially in Berlin, the reduction in the EPRA Vacancy Rate and the continuous increase in effective rents. Whereas the strategic portion of the base portfolio in question – which corresponds to 94.0% (2013: approximately 90.0%) of the entire portfolio – increased in value by 2.0% (2013: 5.3%), the value of the non-strategic portfolio increased by 8.1% (2013: -2.1%). The positive change in the value of the non-strategic portfolio is essentially based on the increase in the value of inner-city development sites in Berlin which are intended for a quick sale.

With a fair value of EUR k 1,471,794 as at 31 December 2014 (31.12.2013: EUR k 1,362,610), the properties measured using the discounted cash flow method represent 98.8% (31.12.2013: 96.3%) of the portfolio.

These overviews present the measurement gains and losses of the undeveloped land under the header "Liquidation method" in the "Other properties" asset class. As at 31 December 2014, the fair value of the undeveloped land was EUR k 8,881 (31.12.2013: EUR k 17,894) and it represented 0.6% (31.12.2013: 1.3%) of the total portfolio of investment property.

The fair value of the properties (with the exception of undeveloped land) measured using the liquidation method was EUR k 8,922 as at 31 December 2014 (31.12.2013: EUR k 34,187), which represents 0.6% of the portfolio (31.12.2013: 2.4%).

No significant changes were made to the valuation methods or models in the reporting period.

The calculation of the fair value by the independent expert was based on the following rental data on each balance sheet date:

Portfolio overview by asset class

	Investment properties EUR k	EPRA-vacancy rate in %	Average effective rent[1] EUR/sqm	Proportion of limited rental agreements in %	WALT limited rental agreements Years
Investment properties as at 31.12.2014					
Valuation method = discounted cash flow (DCF)					
Retail properties	663,347	1.1	9.72	97.6	6.9
Office properties	547,145	7.0	9.39	91.9	5.6
Hotel properties	191,415	1.1	13.85	99.3	16.1
Other properties	69,887	10.1	3.49	78.8	5.9
Total (DCF method)	**1,471,794**	**3.9**	**8.5**	**94.1**	**7.4**
Valuation method = liquidation method					
Retail properties	5,740	—	2.56	100.0	1.5
Office properties	230	—	—	—	—
Other properties	11,833	—	2.65	80.2	2.1
Total (liquidation method)	**17,803**	**—**	**2.66**	**87.9**	**1.8**
Total	**1,489,597**	**3.9**	**8.41**	**94.1**	**7.4**
Investment properties as at 31.12.2013					
Valuation method = discounted cash flow (DCF)					
Retail properties	655,994	1.6	9.55	97.7	7.7
Office properties	447,308	9.4	8.59	89.8	5.7
Hotel properties	185,611	4.5	13.74	99.9	17.4
Other properties	73,697	13.6	3.25	75.5	5.0
Total (DCF method)	**1,362,610**	**5.7**	**7.92**	**93.3**	**8.0**
Valuation method = liquidation method					
Retail properties	24,500	—	4.46	100.0	3.9
Office properties	450	—	—	1.2	0
Other properties	27,131	—	2.32	72.0	1.8
Total (liquidation method)	**52,081**	**—**	**3.63**	**90.3**	**3.4**
Total	**1,414,691**	**5.6**	**7.81**	**93.2**	**8.0**

[1] Effective rent per sqm of rented space, including owner occupancy by TLG IMMOBILIEN as at the balance sheet date; not including rental agreements starting in the future

The investment property featured an average EPRA Vacancy Rate of 3.9% on the balance sheet date, 31 December 2014 (31.12.2013: 5.6%). The further development of the EPRA Vacancy Rate is based on the location and attributes of each property. In general, retail and hotel properties can still be expected to have a lower vacancy rate than on 31 December 2014. The EPRA Vacancy Rate of office properties is expected to fall and the rate of other properties is not expected to undergo any significant change.

At 8.41 EUR/sqm (31.12.2013: 7.81 EUR/sqm) the average effective rent (including owner occupation by TLG IMMOBILIEN AG) improved by 7.7.%. At 7.4 years, the WALT (weighted average lease term) is lower than the previous year's 8.0 years. Rental agreements which have been concluded but which do not commence until after the balance sheet date have not been disclosed on the balance sheet date. The future development of the rental income was forecast on the basis of individual assumptions made in the planning period. In doing so, rental income from ongoing rental agreements was differentiated from rental income from new rental agreements due to expected fluctuations. In the detailed planning period, the market rent increases at a specific rate on an annual basis. Overall, rental income is expected to increase moderately in the planning period.

Furthermore, as at the balance sheet date TLG IMMOBILIEN assumes that future fluctuations in fair value will not be caused by factors at the discretion of TLG IMMOBILIEN. Such factors include the discount and capitalisation rates used as part of the measurement in particular.

In addition to the calculation of the market value, a sensitivity analysis for changes to the discount and capitalisation rates was carried out. If the discount and capitalisation rates on which the measurement of the property is based were to rise or fall by 0.5 percentage points, this would result in the following values on 31 December 2014:

in EUR k	Investment properties in %	Discount rate		
		-0.5%	0.0%	+0.5%
31.12.2014				
Valuation method = discounted cash flow (DCF)				
Capitalisation rate	-0.5	1,592,354	1,534,764	1,479,934
	0.0	1,525,984	1,471,794	1,419,944
	+0.5	1,469,524	1,417,454	1,368,024
Valuation method = liquidation method [1]				
Capitalisation rate	0.0	18,020	17,803	17,680
Total [1]				
Capitalisation rate	-0.5	1,610,374	1,552,567	1,497,614
	0.0	1,544,004	1,489,597	1,437,624
	+0.5	1,487,544	1,435,257	1,385,704
31.12.2013				
Valuation method = discounted cash flow (DCF)				
Capitalisation rate	-0.5	1,473,730	1,419,610	1,368,450
	0.0	1,413,660	1,362,610	1,314,110
	+0.5	1,362,360	1,313,590	1,267,110
Valuation method = liquidation method [1]				
Capitalisation rate	0.0	53,110	52,081	51,650
Total [1]				
Capitalisation rate	-0.5	1,526,840	1,471,691	1,420,100
	0.0	1,466,770	1,414,691	1,365,760
	+0.5	1,415,470	1,365,671	1,318,760

[1] No sensitivity analysis is carried out for the capitalisation rate under the liquidation method

The following qualitative sensitivities exist with regard to a change in the other significant inputs and their impact on the fair value: An increase in rental income will lead to an increase in the value of the investment property. Likewise, an increase in the residual value will lead to an increase in the value of the property. An increase in the EPRA Vacancy Rate will lead to a decrease in the value of the property.

The following payment claims arising from minimum lease instalments are expected in the next few years under the ongoing agreements as of 31 December 2014:

in EUR k	31.12.2014	31.12.2013
Due within 1 year	110,144	104,849
> 1 and 5 years	345,522	330,256
> after 5 years	366,733	418,930
Total	**822,399**	**854,035**

Contingent rent of EUR k 162 (2013: EUR k 247) was received in the 2014 financial year.

The majority of the investment property is encumbered with collateral for the loans. The properties are generally freely disposable. Financed properties are normally secured by residential properties and are the subject of assignments of rights and claims arising from sales contracts. If a property is sold, the finance is settled by means of an unscheduled repayment.

2. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE FIXED ASSETS

Property, plant and equipment and intangible fixed assets developed as follows:

in EUR k	Owner-occupied properties	Technical equipment and machinery	Operating and office equipment	Intangible fixed assets	Goodwill	Total
2014						
Historical costs						
to 01.01.2014	17,103	2,728	5,769	7,098	5,823	38,520
Additions	201	167	114	245	1,164	1,892
Reclassifications under IAS 40	-3,470	1,944	1	—	—	-1,524
Disposals	—	72	273	36	—	381
to 31.12.2014	13,834	4,768	5,611	7,307	6,987	38,506
Cumulative depreciation						
to 01.01.2014	639	2,023	5,175	6,226	5,823	19,886
Additions	274	155	210	597	—	1,236
Reclassifications under IAS 40	—	1,903	—	—	—	1,903
Disposals	—	36	271	36	—	343
to 31.12.2014	913	4,045	5,114	6,787	5,823	22,682
Net carrying amount as at 31.12.2014	**12,921**	**723**	**497**	**520**	**1,164**	**15,824**
2013						
Historical costs						
to 01.01.2013	17,040	2,749	7,124	6,922	5,823	39,658
Additions	63	40	61	193	—	356
Disposals	—	61	1,416	17	—	1,494
as at 31.12.2013	17,103	2,728	5,769	7,098	5,823	38,520
Cumulative depreciation						
to 01.01.2013	343	1,933	6,196	5,456	5,823	19,750
Additions	296	125	253	787	—	1,461
Disposals	—	35	1,273	17	—	1,325
as at 31.12.2013	639	2,023	5,175	6,226	5,823	14,064
Net carrying amount as at 31.12.2013	**16,464**	**705**	**593**	**872**	**—**	**18,634**

The properties used by the owner and measured under IAS 16 were reclassified as investment property due to a decrease in the area used by the owner in 2014.

3. OTHER FINANCIAL ASSETS

The other financial assets are classified as follows:

in EUR k	31.12.2014	31.12.2013
Other loans	2,475	–
Restricted credit	652	4,236
Other financial assets	328	842
Total	**3,456**	**5,077**

The restricted credit mainly comprises money pledged for guarantees.

The amount of the other loans (2013: EUR k 124) recognised under other financial assets is long term; the rest is short term.

4. TRADE RECEIVABLES

The following table provides an overview of the trade receivables of the Group:

in EUR k	31.12.2014	31.12.2013
Trade receivables, gross	18,201	18,586
Valuation allowances on these	-5,650	-7,019
Total of trade receivables	**12,552**	**11,567**
of which from letting activities	4,167	6,079
of which from the disposal of property	7,019	3,219
of which other trade receivables	1,365	2,269

The trade receivables are all short term.

See section I.1 for more details on valuation allowances and collateral received.

5. OTHER RECEIVABLES AND ASSETS

The other receivables and assets comprise the following:

in EUR k	31.12.2014	31.12.2013
Accruals and deferrals	2,936	118
Receivables from other taxes	95	80
Prepayments	16	17
Accruals and deferrals from rental incentives granted	8,432	8,423
Receivables from recharged IPO costs	9,800	—
Other assets	499	492
Total	**21,778**	**9,129**

The accruals and deferrals include negative start values from interest rate derivatives which are reversed over the term of the hedging instrument. The accruals and deferrals from rental incentives essentially comprise rent-free periods and subsidies for original hotel equipment.

The receivables from the recharging of IPO costs concerns the proportional assumption of the costs by current shareholders.

EUR k 13,346 of the other receivables and assets is short term, the rest is long term (2013: EUR k 707).

6. INVENTORIES

The inventories are classified as follows:

in EUR k	31.12.2014	31.12.2013
Land with completed buildings	412	2,724
Undeveloped land	1,065	3,981
Other unfinished buildings	—	6,680
Total	**1,477**	**13,385**

The following table contains more information on inventories:

in EUR k	2014	2013
Amount of inventories recognised as expenses in the reporting period	18,799	13,660
Amount of inventories held for more than one year	1,477	1,582

The reductions in all the items are in line with the company's strategy of disposing of properties that are not relevant to its strategy. As at 31 December 2014, the portfolio essentially consisted of only undeveloped land intended for residential properties.

As at 31 December 2014, EUR k 0 has been provided as collateral for loans (2013: EUR k 6,680).

7. CASH AND CASH EQUIVALENTS

The cash and cash equivalents comprise the following on the reporting dates in question:

in EUR k	31.12.2014	31.12.2013
Bank balances	152,590	138,909
Cash in hand	10	21
Total of cash and cash equivalents	**152,599**	**138,930**

Bank balances are subject to variable interest rates for callable loans. Short-term deposits are made for a range of periods of up to three months.

8. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

In line with IFRS 5, only the assets for which management has committed to a plan to sell, the sale of which is highly probable within 12 months of classification as held for sale and which are being actively marketed for sale are recognised as assets classified as held for sale on the balance sheet dates, 31 December 2014 and 31 December 2013.

Assets classified as held for sale

in EUR k	31.12.2014	31.12.2013
Investment property	21,991	17,817
Total of assets classified as held for sale	**21,991**	**17,817**

The carrying amounts of the assets classified as held for sale and the corresponding liabilities developed as follows:

in EUR k	2014	2013
Carrying amount as at 01.01	**17,817**	**—**
Reclassification from investment property	86,635	209,259
Disposal through the sale of land and buildings	-82,460	-191,442
Carrying amount as at 31.12	**21,991**	**17,817**

The results from the disposal of assets classified as held for sale are recognised under results from the disposal of investment property in the statement of comprehensive income.

9. EQUITY

At the extraordinary general meeting of TLG IMMOBILIEN AG, Berlin, on 22 October 2014, the Management Board of TLG IMMOBILIEN AG was authorised, with the consent of the Supervisory Board, to increase the share capital of the company by up to EUR 30,651,163 until 21 October 2019 by issuing up to 30,651,163 new no-par value bearer shares in exchange for cash and/or in-kind capital contributions, either at once or in several stages. The authorisation to increase the share capital in accordance with Article 6 of the Articles of Association, resolved on by the general meeting on 25 September 2014 and valid until 24 September 2019, is rendered null and void by the introduction of the new authorised capital. By resolution of the extraordinary general meeting of TLG IMMOBILIEN AG, Berlin, on 22 October 2014, Article 6 (Authorised Capital) of the Articles of Association was amended accordingly.

The subscribed capital of the company totalled EUR k 61,302 on the reporting date (31.12.2013: EUR k 52,000). Following the capital increase in exchange for cash contributions on 22 October 2014, the company's share capital of EUR k 52,000, divided into 52,000,000 registered ordinary shares with a theoretical par value of EUR 1.00, was increased by EUR k 9,302 to EUR k 61,302 by the issue of 9,302,326 no-par bearer shares. The shares issued in October 2014 have a theoretical par value of EUR 1.00 and entitlement to dividends from 1 January 2014. By resolution of the extraordinary general meeting of TLG IMMOBILIEN AG, Berlin, on 22 October 2014, Article 4 (Share Capital) of the Articles of Association was amended accordingly.

The capital reserves amount to EUR k 343,003 (31.12.2013: EUR k 410,249). The changes (EUR k 67,245) resulted from an additional contribution of EUR k 90,698 to the capital reserves as part of the IPO of TLG IMMOBILIEN AG, an additional contribution of EUR k 3,596 to the capital reserves from share-based remuneration for the management, a distribution of EUR k 158,547 to the shareholders and the offsetting of the equity transaction costs of EUR k 2,993, which were recognised with no impact on earnings.

The revenue reserves of the company increased by EUR k 14,182 to EUR k 354,074 (31.12.2013: EUR k 339,939). This resulted from the comprehensive annual income of EUR k 88,588 attributable to the shareholders of the parent company, as well as the distributions to the shareholders which reduced the revenue reserves by EUR k 74,453.

Under § 58(2) of the German Stock Corporation Act (AktG) in conjunction with § 270(2) HGB, the Management Board of TLG IMMOBILIEN AG deposited an amount equal to 50% of the parent company's net income (EUR 25.4 mn) into other revenue reserves when preparing the financial statements.

The accumulated other reserves comprise actuarial gains and losses of EUR k 1,934 (31.12.2013: EUR k 1,028) and accumulated fair value adjustments of derivatives in cash flow hedges of EUR k 11,050 (31.12.2013: EUR k 124).

The deferred taxes are distributed under accumulated other reserves as follows:

in EUR k	Before deferred taxes	Deferred taxes	After deferred taxes
01.01.2014–31.12.2014			
Group net income	118,022	-29,371	88,650
Fair value adjustments for interest rate derivatives in cash flow hedges	-15,800	4,874	-10,926
Actuarial gains and losses	-1,310	404	-906
Comprehensive income	**100,911**	**-24,093**	**76,818**
01.01.2013–31.12.2013			
Group net income	108,942	-9,810	99,132
Fair value adjustments for interest rate derivatives in cash flow hedges	-180	56	-124
Actuarial gains and losses	-33	10	-23
Comprehensive income	**108,729**	**-9,744**	**98,985**

10. LIABILITIES TO BANKS

Besides scheduled and unscheduled repayments, the liabilities to banks developed as follows due to the company's financing activities:

The loan taken out by the shareholders in 2013 as part of distributions and a debt-discharging assumption, which was valued at EUR k 74,929 on 31 December 2013, was repaid in full in 2014.

Furthermore, loans were valued at EUR k 256,214 in the 2014 financial year (2013: EUR k 252,511). All loans were taken out by TLG IMMOBILIEN AG.

The liabilities were generally secured by the provision of physical securities, the assignment of rights arising from the rental agreements and the pledging of shareholdings. The overwhelming majority of the properties in the portfolio serve as collateral.

Essentially, a loan of EUR k 17,681 – which matures in 2015 – and the repayments to be made in 2015 were recognised as payable within one year as at 31 December 2014. Essentially, the actual balance of the loan of EUR k 74,929 taken out by the shareholders, project financing of EUR k 16,065 and the repayments to be made in 2014 were recognised as payable within one year as at 31 December 2013.

The liabilities to banks have the following remaining terms:

in EUR k	31.12.2014	31.12.2013
Due within 1 year	39,345	113,225
Due after more than 1 year	731,102	513,002

11. PENSION OBLIGATIONS

There are pension obligations towards (former) executives and managing directors who began working for the company between 1991 and 2001.

As at 31 December 2014, EUR k 3,543 of the present value of the performance obligation is attributable to the group of former scheme members and EUR k 4,698 is attributable to the group of pensioners and survivors. The average term of the commitments to the managing directors is 15.18 years. The company expects payments of EUR k 256 under pension schemes in 2015 (previous year: EUR k 280).

The pension provisions for defined benefit plans are calculated on the basis of actuarial assumptions in accordance with IAS 19. The following parameters were applied in the financial year:

in %	2014	2013
Discount rate	1.80	3.10
Rate of pension progression [1]	2.00	2.00

[1] Some commitments have a guaranteed interest rate of 1% p.a., in which case no other trend is recognised

The 2005G mortality tables published by Dr Klaus Heubeck were used for the biometric assumptions.

For the defined benefit plans, the expenses in the financial years are broken down as follows:

in EUR k	2014	2013
Service cost	34	34
Interest expense	211	210
Total	**245**	**244**

The present value of the pension obligations developed as follows in the corresponding periods:

in EUR k	2014	2013
Present value of the obligations as at 01.01	**6,931**	**6,888**
Ongoing service costs	34	34
Interest expense	211	210
Pension payments rendered by the employer directly	-245	-234
Actuarial gains/losses	1,310	33
Present value of the obligations as at 31.12	**8,241**	**6,931**

The new actuarial loss resulting from the adjustment of the discount rate this financial year was recognised in other comprehensive income (OCI). Of this amount, a gain/loss of EUR k -81 (2013: EUR k 33) is attributable to adjustments made in the current year based on past experience and a gain/loss of EUR k 1,391 (2013: 0) is attributable to changes to financial assumptions. Overall, the accumulated other reserves comprise actuarial losses of EUR k 2,797 (2013: EUR k 1,487).

Expenses of EUR k 880 (2013: EUR k 994) for defined contribution plans arose in the current year. These essentially consist of contributions to the statutory pension scheme.

Based on the obligations accounted for on the reporting dates, a change to the individual parameters would have had the following impact on the present value of the obligation if the other assumptions had remained constant.

Sensitivity analysis for 2014:

	Change to the assumption in %	Increase in the assumption EUR k	Decrease in the assumption EUR k
2014			
Discount rate	1.00	7,137	9,618
Rate of pension progression [1]	0.50	8,656	7,861
2013			
Discount rate	0.50	6,496	7,412
Rate of pension progression	0.50	7,084	6,789

[1] Some commitments have a guaranteed interest rate of 1% p.a., in which case no other trend is recognised

Increases and decreases in the discount rate, pension trends or mortality do not cause the same absolute amount of difference in the calculation of the pension obligations. If several assumptions are changed at once, the total amount does not necessarily have to correspond to the sum of the individual effects resulting from the changes to the assumptions. Furthermore, the sensitivities only reflect a change to the pension obligations for the specific magnitude of each change to the assumptions (e.g. 0.5%). If the assumptions on a different magnitude change, this will not necessarily have a linear impact on the amount of the pension provisions.

12. OTHER PROVISIONS

The other provisions developed as follows in the financial year:

in EUR k	01.01.2014	Contribution	Utilisation	Release	31.12.2014
Provisions for personnel expenses from restructuring plan	2,845	—	2,845	—	—
Provisions for litigation risks	12,871	1,267	6,972	2,083	5,084
Other miscellaneous provisions	477	293	155	8	607
Total	**16,193**	**1,560**	**9,971**	**2,090**	**5,691**

Provisions for personnel expenses from the restructuring plan are based on the restructuring measures implemented by the company in 2013 and corresponding staff cuts in 2013 and 2014. The restructuring measures were essentially complete as at 31 December 2014. The provisions were utilised in full.

In order to cover the risk of losing ongoing court cases, TLG IMMOBILIEN has formed provisions in the amount of the claims it expects. The majority of the provisions was formed for legal disputes in connection with the reclaiming of subsidies by a public bank. The provisions for process cost risks fell dramatically in 2014 as a result of utilisation and releases.

13. DEFERRED TAXES

The deferred tax assets and liabilities result from the following temporary differences and taxable loss carry-forwards:

in EUR k	31.12.2014		31.12.2013	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Investment property and owner-occupied property	2,873	162,197	2,167	89,000
Property, plant and equipment	590	—	628	—
Intangible assets	49	—	58	—
Financial assets	—	—	—	—
Other assets	2,696	2,805	937	4,468
Pension provisions	1,224	—	627	—
Other provisions	56	12	—	—
Financial liabilities	5,481	1,196	5,801	860
Other liabilities	1,126	774	1,710	2,191
Total of temporary differences	**14,095**	**166,983**	**11,927**	**96,519**
Loss carry-forwards	5,431	—	—	—
OBD	—	—	—	—
Total of deferred taxes before offsetting	**19,526**	**166,983**	**11,927**	**96,519**
Offsetting	16,520	16,520	8,379	8,379
Disclosure after offsetting	**3,006**	**150,463**	**3,548**	**88,139**

The deferred tax claims and liabilities before offsetting are expected to be realised as follows:

in EUR k	2014	2013
Deferred tax claims		
realised after more than 12 months	16,169	3,480
realised within 12 months	3,357	8,447
Total of deferred tax claims	**19,526**	**11,927**
Deferred tax liabilities		
realised after more than 12 months	165,987	89,000
realised within 12 months	996	7,519
Total of deferred tax liabilities	**166,983**	**96,519**

The sum of temporary differences associated with investments in subsidiaries and interests in joint ventures which will not be reversed in the foreseeable future in the sense of IAS 12.39 and for which no deferred taxes were recognised amounts to EUR k 468 (2013: EUR k 7,205). No deferred taxes were accounted for on outside basis differences.

14. LIABILITIES

The liabilities are classified as follows:

in EUR k	31.12.2014	31.12.2013
Trade payables	**13,876**	**14,573**
Total of other liabilities	**13,896**	**19,520**
Liabilities to employees	3,806	2,346
Prepayments received	3,183	465
Other taxes	1,364	1,620
Liabilities from recharged purchase prices	0	5,522
Investment grants	1,788	2,418
Liabilities to tenants	858	1,200
Other liabilities	2,896	5,948
Total liabilities	**27,772**	**34,093**

The liabilities have the following remaining terms:

in EUR k	31.12.2014	31.12.2013
Up to 1 year	26,260	30,709
1–5 years	984	3,384
More than 5 years	528	0

The trade payables remained almost entirely constant in comparison to the previous year. Of the EUR k 1,788 in investment grants, EUR k 1,512 is long term.

The increase in liabilities to employees is based on increased obligations including overtime and bonuses.

The prepayments received concern the disposal of properties.

The liabilities from recharged purchase prices as at 31 December 2013 comprise purchase prices received for properties disposed of by TLG IMMOBILIEN AG on behalf of the joint owners BEDIG AG i. L. and the state of Berlin.

The investment grants comprise received subsidies which are realised pro rata in net profit or loss over the term of the rental agreement.

The liabilities to tenants comprise credit resulting from the service charge statements generated at the end of the year and excess payments by the tenants.

F. NOTES ON THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1. NET OPERATING INCOME FROM LETTING ACTIVITIES

Net operating income from letting activities fell slightly (EUR k -5,987). Smaller properties were disposed of and high-quality individual properties were acquired as part of the portfolio optimisation process. The high-quality additions to the portfolio have not yet had a full effect on the net operating income from letting activities. This can be expected to happen in 2015.

The expenses from letting activities stand in direct correlation with net income as well as – in some cases – the vacancy rates of the properties, and fell slightly. The increase in other purchased services essentially results from expenses for recovery of rent arrears and actions for eviction (EUR k 411), for traffic surveys for measurements/disposals (EUR k 542) and from project and site development (EUR k 795).

2. RESULT FROM THE REMEASUREMENT OF INVESTMENT PROPERTY

The result from the remeasurement of investment property was positive, due mainly to the persistently favourable market conditions in the 2014 financial year. The change in value was primarily driven by the positive market trends, the falling EPRA Vacancy Rate and the continuous growth in effective rents.

The result from the remeasurement of investment property included EUR k 32,095 (2013: EUR k 14,180) attributable to properties classified as non-current assets classified as held for sale.

See section E.1 for more details.

3. OTHER OPERATING INCOME

Other operating income developed as follows in the reporting periods in 2014 and 2013:

in EUR k	2014	2013
Reversal of provisions/liabilities and valuation allowances	1,867	9,525
Insurance compensation	1,737	1,013
Income from the disposal of subsidiaries	117	0
TAG/TLG WOHNEN agency contract	640	1,629
Landlord maintenance services	503	677
Subsidies for environmental and contaminated land remediation	136	279
Write-off of liabilities	0	1,765
Income from previous years	431	1,453
Income from recharged IPO costs	9,800	0
Other income	1,608	2,345
Total	**16,839**	**18,687**

In 2013, the reversals of provisions/liabilities and valuation allowances included special effects such as income of EUR k 5,403 from the reversal of real estate transfer tax. Additionally, under an agreement with the creditor, interest provisions of EUR k 2,993 for the liabilities from recharged purchase prices were reversed.

The income from subsidies for environmental and contaminated land remediation was paid by national institutions as reimbursements of expenses incurred.

The income from recharged IPO costs results from the obligation of the existing shareholders to cover a portion of the expenses accrued by the IPO of TLG IMMOBILIEN AG in October 2014.

4. PERSONNEL EXPENSES

Personnel expenses were as follows in the 2013 and 2014 financial years:

in EUR k	2014	2013
Salaries	10,199	12,777
Social security contributions and cost of old age pensions	1,879	2,482
Bonuses	1,188	1,279
Severance packages	496	6,856
Share-based payment components under IFRS 2	3,596	0
Total	**17,358**	**23,394**

The decrease in expenses for salaries, social security contributions and bonus payments was attributable primarily to the decline in the employee headcount in connection with the restructuring measures.

The settlement expenses which, for example, were accrued by the reconciliation of interests of 7 March 2013 on the basis of the social plan of 1 November 2011 fell sharply for 2014.

Expenses for a share-based payment component for members of the management board were recognised in the first time in the 2014 financial year, in line with IFRS 2. See also section H.4.

5. DEPRECIATION, AMORTISATION AND WRITE-DOWNS

Depreciation, amortisation and write-downs developed as follows in the financial year and in the comparative period:

in EUR k	2014	2013
Amortisation of intangible fixed assets	597	787
Depreciation of land, land rights and buildings	274	296
Depreciation of technical equipment and machinery	155	125
Depreciation of other equipment and office and operating equipment	210	253
Total	**1,236**	**1,461**

6. OTHER OPERATING EXPENSES

Other operating expenses were recognised as follows in the 2014 and 2013 financial years:

in EUR k	2014	2013
Amortisation of and valuation allowances for receivables	1,828	1,883
Consultancy and audit fees	10,924	1,998
General IT and administrative expenses	1,729	2,836
Depreciation of inventory	0	840
Ancillary office costs	767	852
Corporate advertising	526	525
Vehicle and travel expenses	462	452
Other taxes	279	132
Other	1,521	2,043
Reversal of provisions/liabilities	-2,318	-3,748
Total	**15,717**	**7,812**

The increase in consultancy costs correlates to the preparation for, and execution of, the IPO and the restructuring of the company. A total of EUR k 9,800 for the sale of existing shares was covered by the shareholders.

The reduction in general IT and administrative expenses was brought about by cost-cutting measures.

The item "Other" essentially comprises losses from write-downs of property, plant and equipment, the costs of further training and utilisation costs.

"Reversal of provisions/liabilities" contains accrued invoices and provisions from the previous year for other expenses which proved to be less costly than anticipated.

7. NET INTEREST

Net interest is broken down as follows:

in EUR k	2014	2013
Net interest from bank balances	-353	-465
Net interest from default interest and deferrals	-227	-175
Other net interest	-40	-12
Total interest and similar income	**-620**	**-652**
Interest expenses for interest rate derivatives	4,025	6,996
Interest on loans	18,035	28,620
Interest expense from pension provisions	211	210
Other interest expenses	2,037	214
Total interest and similar expenses	**24,308**	**36,039**
Interest result	**23,688**	**35,387**

The decrease in interest on loans essentially results from the full repayment of a loan taken out by the shareholders in the previous year and refinancing at more favourable rates (see also section E.10).

The interest expense for interest rate derivatives was lower, particularly due to the fact that in March 2014 existing interest rate derivatives were reversed and then replaced by derivatives at lower acquisition costs.

8. RESULT FROM THE REMEASUREMENT OF DERIVATIVES

In the 2014 financial year, there were expenses of EUR k 2,129 from the market value adjustment of derivatives (2013: income of EUR k 6,899). The expenses from market value adjustments were essentially based on reversed interest rate derivatives in 2014.

There was no ineffectiveness in derivatives in hedge accounting in the 2014 financial year.

9. INCOME TAXES

The tax expense/income can be broken down as follows:

in EUR k	2014	2013
Current income tax	1,548	37,220
Prior-period income taxes	-35,378	260
Deferred taxes	65,459	9,810
Tax expense/income	**31,629**	**47,290**

The EUR k 35,378 in aperiodic income taxes in 2014 resulted from the formation of a taxable reserve in accordance with § 6b of the German Income Tax Act (EStG).

The expected (notional) expenses for income taxes can be transferred to the income taxes in the statement of comprehensive income as follows:

in EUR k	2014	2013
IFRS earnings before tax	**120,279**	**146,423**
Group tax rate in %	30.77	30.88
Expected income taxes	**37,010**	**45,215**
Trade tax add-backs and deductions	209	671
Tax rate fluctuations	-347	—
Tax expenses in previous years	4,750	260
Tax-free income (2014: reserve under § 6b)	-3,003	759
Non-deductible operating expenses	1,091	409
Recognition of loss carry-forwards/carried interest from previous years	-5,599	—
Unrecognised actual income taxes in 2014	-350	—
Income tax reimbursement claims from 2013	-2,234	—
Other tax effects	102	-24
Effective income taxes in the statement of comprehensive income	**31,629**	**47,290**
Effective tax rate in %	**26.30**	**32.30**

The tax rate to be used to calculate the income tax computation accounts for the current and–given the current legal situation–probable corporation tax rates of 15.0% (2013: 15.0%) and the solidarity contribution of 5.5% (2013: 5.5%) of the defined corporation tax less any credit. The weighted trade tax rate for Berlin and the regions in which TLG IMMOBILIEN has business premises is 427.00% for the financial year (2013: 430.32%). With consideration for the collection rate and the base amount of trade tax of 3.5% (2013: 3.5%), the trade tax rate is therefore 14.945% (2013: 15.06%).

The domestic tax rate on which the calculated deferred taxes and expected (notional) tax expenses of the Group are based is therefore 30.77% in the reporting year (2013: 30.875%).

The deferred tax assets and liabilities before offsetting developed as follows as at the balance sheet date:

in EUR k	2014	2013
Deferred tax assets at the start of the reporting year	11,927	22,923
Change (in net profit or loss)	2,321	-11,062
Change recognised in equity	5,278	66
Deferred tax assets at the end of the reporting year	**19,526**	**11,927**
Deferred tax liabilities at the start of the reporting year	96,519	97,771
Change (in net profit or loss)	67,339	-1,252
Change recognised in equity	3,125	—
Deferred tax liabilities at the end of the reporting year	**166,983**	**96,519**

Deferred tax claims which are recognised directly to equity result from actuarial losses for pension obligations and hedge accounting reserves.

For more details on the deferred taxes in the statement of financial position, see section E.13.

10. EARNINGS PER SHARE

The earnings per share are calculated by dividing the net income/loss for the period attributable to the shareholders by the weighted average number of ordinary shares in circulation within the reporting period.

	31.12.2014	31.12.2013
Comprehensive annual income attributable to the shareholders in EUR k	-88,588	-99,132
Average weighted number of shares issued in thousand [1]	53,794	52,000
Undiluted earnings per share in EUR	-1.65	-1.91
Diluting effect of share-based payment in thousand	12.7	—
Number of shares with a diluting effect in thousand	53,806	—
Diluted earnings per share in EUR	-1.65	—

[1] Before the company became an Aktiengesellschaft, on 5 September 2014, it was a limited liability company (GmbH). Therefore, for the purposes of comparison, the value of the issued shares is the value that would have existed if the company had always been an Aktiengesellschaft with the same number of shares.

The share-based payment of the Management Board has a diluting effect based on the amount of work already carried out. The number of shares on the reporting date was increased by 12.7 thousand shares to a total of 53,806 thousand shares. For more information on share-based payment see section H4 and the Compensation Report.

G. DISCLOSURES ON THE CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statement reports the changes in the cash funds recognised in the statement of financial position through cash inflows and outflows in accordance with IAS 7.

In this regard, cash flows are broken down into cash flows from operating activities, cash flows from investing activities and cash flow from financing activities. In line with IAS 7.18(b), cash flows from operating activities are derived from earnings before tax (EBT) using the indirect method. The cash flows from investing activities and cash flows from financing activities are determined based on cash receipts and payments.

The cash funds contain the recognised cash and cash equivalents, therefore also cash in hand and bank balances. Please see section E.7.

As an output of the calculation of cash flows from operating activities, earnings before tax (EBT) fell compared to the previous year. Overall, however, the net cash flows from operating activities increased by EUR k 6,698 as the interest paid fell by EUR k 9,823.

The cash flows from investing activities comprise cash investments and disposals. These cash flows fell by EUR k 241,430 to EUR k -20,538 in the 2014 financial year. The change is essentially based on significantly lower cash inflows from disposals of property, plant and equipment and long-term financial assets and increased acquisitions of investment property in comparison to the 2013 financial year. Additionally, a consolidated company was acquired in 2014 which reduced the cash flows from investing activities. This essentially includes the payment of the preliminary purchase price of EUR k 14,958 and the reversal of liabilities of EUR k 31,926. See also section C.2.

In terms of debt capital, the cash flows from financing activities contains disbursements to repay existing loans (2014: EUR k 109,540; 2013: EUR k 429,333). In contrast, the inflows from new loans remained almost entirely constant in comparison to the previous year. In equity, cash receipts of EUR k 100,000 from the issue of capital were recognised in 2014 in connection with the IPO of TLG IMMOBILIEN AG. In 2014, disbursements to shareholders resulted in liquidity pressure of EUR k 233,000. Overall, in 2014 the cash flows from financing activities increased by EUR k 170,003 to EUR k 13,674 compared to the previous year.

H. OTHER INFORMATION

1. DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

Explanation of measurement categories and classes

The following table presents the financial assets and liabilities by measurement category and class. Hedge derivatives are also accounted for, although they do not belong to any of the measurement categories of IAS 39. Additionally, with regard to the reconciliation of the statement of financial position, the non-financial liabilities are accounted for even though they are not subject to IFRS 7:

in EUR k	Measurement category in accordance with IAS 39	Measurement at amortised cost		Measured at fair value	No measurement category under IAS 39	No financial instruments under IAS 32	**Total**
		Carrying amount	Fair value	Carrying amount	Carrying amount	Carrying amount	**Carrying amount**
2014							
Other non-current financial assets	LaR	2,475	2,542				**2,475**
Trade receivables	LaR	12,552	12,552				**12,552**
Other short-term financial assets	LaR	981	981				**981**
Financial derivatives[1]	FAHfT			0			**0**
Cash and cash equivalents	LaR	152,599	152,599				**152,599**
Total financial assets		**168,607**	**168,674**	**0**	**0**	**0**	**168,607**
Liabilities to financial institutions[2]	FLaC	770,447	819,243				**770,447**
Trade payables	FLaC	13,876	13,876				**13,876**
Financial derivatives[1]	FLHfT			0	17,814		**17,814**
Other liabilities	FLaC	13,896	4,185			9,712	**13,896**
Total financial liabilities		**798,219**	**837,304**	**0**	**17,814**	**9,712**	**816,033**
2013							
Other non-current financial assets	AfS	124	N/A				**124**
Trade receivables	LaR	11,567	11,567				**11,567**
Other short-term financial assets	LaR	4,953	4,953				**4,953**
Financial derivatives[1]	FAHfT			15			**15**
Cash and cash equivalents	LaR	138,930	138,930				**138,930**
Total financial assets		**155,574**	**155,449**	**15**	**0**	**0**	**155,589**
Liabilities to financial institutions[2]	FLaC	626,227	640,477				**626,227**
Trade payables	FLaC	14,573	14,573				**14,573**
Financial derivatives[1]	FLHfT			18,608	180		**18,788**
Other liabilities	FLaC	19,520	11,983			7,537	**19,520**
Total financial liabilities		**660,321**	**667,033**	**18,608**	**180**	**7,537**	**679,109**

Categorisation of underlying inputs for fair value measurement in accordance with IFRS 13.93(b) and IFRS 13.97:
[1] Derivatives: Level 2 with in the fair value hierarchy (measured on the basis of observable inputs/market data)
[2] Liabilities to banks: Level 2 with in the fair value hierarchy (measured on the basis of observable inputs/market data)

The "Other long-term financial assets" class includes a granted loan as an item which is categorised as LaR. In the previous year, this class contained shares in companies that were not fully consolidated. These instruments were carried at amortised cost since there was no quoted price available for them on an active market and it was not possible to reliably determine their fair value. All shares in companies that were not fully consolidated were disposed of in 2014.

The carrying amounts of cash and cash equivalents, trade receivables, other financial assets, trade payables and other liabilities, for the most part, have short remaining terms and corresponded to the fair values as at the reporting date.

Net results by measurement category

Under IFRS 7.20(a), the net gains and losses from financial instruments are to be disclosed for every measurement category of IAS 39. This does not include the effects on earnings of derivatives in hedging relationships as these must be disclosed under separate regulations and are therefore not attributable to any of the measurement categories of IAS 39.

The net results of financial instruments were as follows, broken down by the various measurement categories of IAS 39:

in EUR k		2014	2013
Loans and receivables	LAR	-659	-30
Available-for-sale financial assets	AFS	-117	3
Financial assets held for trading (at fair value through profit or loss)	FAHFT	0	218
Financial liabilities held for trading (at fair value through profit or loss)	FAHFT	2,960	-121
Financial liabilities measured at amortised cost	FLAC	20,072	28,833
Total		**22,255**	**28,904**

The net result of the "Loans and receivables" measurement category comprises net interest from liquid capital, valuation allowances and reversals of write-downs resulting from the reversal of valuation allowances for rent receivable and the amortisation of rent receivable. The net interest amounts to EUR k 620 (2013: EUR k 652).

The net result of the "Financial assets held for trading" measurement category comprises the net interest and expenses for derivatives (except those designated hedging instruments) and the results from the measurement of these derivatives at market value.

The net result of the "Financial liabilities measured at amortised cost" measurement category comprises interest expenses for ongoing debt service and the results from the repayment of loans, which are also recognised under interest expenses.

Principles of financial risk management

As part of its business activities, the TLG IMMOBILIEN Group is exposed to a variety of financial risks. In particular, these are the interest rate risk, the liquidity risk and the inherent risk of default in rental agreements and sales. These risks are independent types of risk which are under constant, systematic observation through the existing risk management system. They are assigned to executives in the various fields of the company who are responsible for their identification, monitoring, reporting, management and control. This method ensures a degree of congruence between the nature of the risk and the field of responsibility. A risk manual – which is updated continuously – governs the identification, monitoring, reporting, management and control of these and other corporate risks. Risk management is integrated into the central control office.

Default risks

The risk that a business partner – essentially tenants and purchasers of property – will be unable to meet its contractual payment obligations, thus causing the TLG IMMOBILIEN Group to suffer a loss, is known as the risk of default. Credit checks are carried out in order to control the risks of default.

Default risks exist primarily for trade receivables. The TLG IMMOBILIEN Group does not consider itself exposed to a significant credit risk with any of its contractual partners. The concentration of the credit risk is limited by the broad, heterogeneous customer base. Bad debt risks are minimised by the careful selection of contractual partners supported by professional credit checks. Additionally, standard hedging instruments such as guarantees, fixed charges, suretyships, letters of comfort, deductions and deposits are used. If necessary, valuation allowances are carried out for receivables.

The creditworthiness of contractual partners is monitored continuously. If a contractual partner's creditworthiness should deteriorate significantly, the company will endeavour to remove the corresponding items from the statement of financial position as quickly as possible. The company will then not enter into any new items with such contractual partners.

The bank balances of TLG IMMOBILIEN AG are fully protected against the risk of bank failure by the security measures of German banks. TLG IMMOBILIEN AG regularly checks its membership in, and the coverage of, the protection schemes.

The highest possible default risk is therefore the carrying amount of the financial assets, not including the value of received securities or other risk-reducing agreements. No guarantees were issued for subsidiaries or associated companies.

The following table shows the financial assets which were impaired on the reporting date:

	Carrying amount before impairment	Impairment	Residual book value
31.12.2014			
Trade receivables	18,201	-5,650	12,552
Other financial assets	3,522	-67	3,456
Total	**21,724**	**-5,716**	**16,007**
31.12.2013			
Trade receivables	18,586	-7,019	11,567
Other financial assets	5,134	-57	5,077
Total	**23,720**	**-7,076**	**16,644**

Collateral exists for the gross trade receivables (essentially rent deposits of approximately EUR 5.2 mn [previous year: EUR 4.6 mn]) which can be used to offset outstanding receivables if the legal requirements are met.

The impairments were as follows in the 2014 financial year:

in EUR k	01.01.2014	Contribution	Utilisations	Reversals	**31.12.2014**
Trade receivables	7,019	1,467	-971	-1,866	5,650
Other financial assets	57	12	0	-1	67
Total	**7,076**	**1,479**	**-971**	**-1,867**	**5,717**

The impairments were as follows in the same period in 2013:

in EUR k	01.01.2013	Contribution	Utilisations	Reversals	**31.12.2013**
Trade receivables	8,386	1,621	-1,862	-1,127	7,019
Other financial assets	52	7	0	-2	57
Total	**8,438**	**1,628**	**-1,862**	**-1,129**	**7,076**

Additionally, the table below presents the age structure of the financial assets that were overdue but not individually impaired as at the balance sheet date.

in EUR k	Carrying amount	of which neither impaired nor overdue as at the reporting date	of which overdue but not impaired as at the reporting date		
			< 90 days	90 – 180 days	> 180 days
31.12.2013					
Trade receivables	11,567	2,022	143	34	865
Other financial assets	5,077	4,395	26	6	19
Total	**16,644**	**6,417**	**169**	**40**	**884**
31.12.2014					
Trade receivables	12,552	265	258	243	904
Other financial assets	3,456	919	45	0	0
Total	**16,007**	**1,184**	**304**	**243**	**904**

Neither impaired nor overdue receivables are considered to have retained their value.

Offsetting of financial assets and financial liabilities

The following financial assets and financial liabilities are subject to offsetting:

Financial assets

in EUR k	31.12.2014	31.12.2013
Trade receivables		
Gross amount of financial assets	16,899	17,289
Gross amount of financial liabilities offset in the statement of financial position	-17,157	-16,665
Net amount recognised in the statement of financial position under financial assets	1,699	2,395

Financial liabilities

in EUR k	31.12.2014	31.12.2013
Prepayments received towards operating costs		
Gross amount of financial liabilities offset in the statement of financial position	16,899	17,289
Gross amount of financial assets	-17,157	-16,665
Net amount recognised in the statement of financial position under financial liabilities	-1,956	-1,771

The offsetting concerns the prepayments made towards the operating costs of the tenants, which are offset against the corresponding receivables from operating costs per tenant.

Liquidity risks

The risk that a company will be unable to meet its payment obligations on a contractually agreed date is known as the liquidity risk.

The treasury continuously monitors and plans the liquidity requirements of the Group in order to ensure its liquidity. Enough liquid capital to meet the obligations of the Group for a given period of time is always kept available.

Additionally, the Group has a short-term credit line of EUR k 500 which, if necessary, can be utilised. The credit line is unsecured.

The following table contains the contractually agreed (undiscounted) interest payments and repayments of the primary financial liabilities of the TLG IMMOBILIEN Group and the derivatives of the TLG IMMOBILIEN Group with a negative fair value. The maturities are based on the contractually defined fixed interest rates of the financial debt.

in EUR k	Carrying	Maturities		
		< 1 year	1 – 5 years	> 5 years
31.12.2014				
Liabilities to banks	770,447	57,103	313,449	496,959
Derivative financial instruments	17,814	4,023	12,156	2,012
Trade payables	13,876	13,876	0	0
Other liabilities	13,896	12,384	984	528
Total	**816,033**	**87,386**	**326,590**	**499,499**
31.12.2013				
Liabilities to banks	626,227	123,890	261,447	318,064
Derivative financial instruments	18,788	6,234	14,431	-279
Trade payables	14,573	14,573	0	0
Other liabilities	19,520	16,136	3,384	0
Total	**679,109**	**160,833**	**279,262**	**317,786**

All instruments for which payments were contractually agreed as at the balance sheet date have been included. Planned figures for new liabilities in the future are not included. The variable interest payments from financial instruments are determined on the basis of the last specific interest rates before the balance sheet date. Financial liabilities that can be repaid at any time are always allocated to the earliest repayment date.

Some financing contracts provide for financial covenants (essentially the Group's equity ratio, LTV, interest coverage ratio and debt service coverage ratio) whereby the bank can exercise its right of termination without notice if the covenants are not adhered to. The company covers the risk of a broken covenant by regularly inspecting the covenants and, if necessary, taking steps to adhere to the covenants. A broken covenant can also be remedied by means of unscheduled repayments, for example. No covenants were broken in 2014 or 2013. No breaches of covenant are foreseeable in the future.

Market risks (interest rate risks and foreign exchange risks)

Increased interest rates can result in growing financing costs. The company accounts for this interest rate risk by creating interest rate hedges for loans with variable interest rates and by concluding agreements with fixed interest rates and terms spanning a number of years. The interest rate hedges include interest rate derivatives such as interest swaps and caps. The use of such interest rate derivatives is governed by guidelines. Under the guidelines, derivatives are only used for the purposes of hedging and never for trading. In general, there is a hedge for every loan with a variable interest rate. However, in certain cases the company does not create a hedge, such as for short-term loans.

The TLG IMMOBILIEN Group is not exposed to any foreign exchange risks as its major transactions are carried out in euros.

As at 31 December 2014, the portfolio contains the following derivatives whose maturity periods are as at the balance sheet date.

in EUR k	2014	
	Fair value	< 1 year
Derivative assets held for trading	**0**	**0**
of which caps	0	0
Derivative liabilities held for trading	**0**	**0**
of which interest swaps	0	0
of which collars	0	0
Hedge derivatives	**17,814**	**0**
of which interest swaps	17,814	0

As at 31 December 2013 the portfolio contained the following derivatives:

in EUR k	2013	
	Fair value	< 1 year
Derivative assets held for trading	**15**	**0**
of which caps	15	15
Derivative liabilities held for trading	**-18,608**	**0**
of which interest swaps	-16,835	0
of which collars	-1,773	0
Hedge derivatives	**-180**	**0**
of which interest swaps	-180	0

The derivatives are used as hedging instruments under IAS 39 if they meet the hedge accounting requirements. The cash flows from the underlying transactions–which are covered by cash flow hedge accounting–will arise from 2015–2024 and affect the statement of comprehensive income.

As in the previous year, in 2014 no ineffective part of a hedge was recognised in the statement of comprehensive income as part of the disclosure of hedging relationships.

The following table shows the amount recognised directly in other comprehensive income (OCI) during the reporting period. This corresponds to the effective part of the change in fair value.

in EUR k	2014	2013
Opening balance as at 01.01	**-180**	**0**
Recognition in accumulated other comprehensive income in the reporting period	-18,448	-180
Reversal from equity into the income statement	2,648	0
Closing balance as at 31.12	**-15,980**	**-180**

Sensitivities

Under IFRS 7, interest rate risks are represented by sensitivity analyses. These analyses determine the impact of a change in market interest rates on the net interest and expenses, trading profit and losses, and on the equity on the balance sheet date.

The sensitivity analysis also factors in the impacts on equity and the statement of comprehensive income of TLG IMMOBILIEN that would result from a simultaneous fluctuation in the euro yield curve by +/-100 basis points. If the yield curve were to decline by 100 basis points, the interest rate would fall to 0.0% at the lowest. The cash flow effects from fluctuations in the yield curve merely concern the interest income and expenses for the next reporting period.

Based on the financial instruments held or issued by TLG IMMOBILIEN as at the balance sheet date, a hypothetical change–quantified by sensitivity analyses–in the interest rates on which each instrument was based on the balance sheet date would have had the following effects (before taxes).

	Effect on OCI		Effect on income	
	+100 BP	-100 BP	+100 BP	-100 BP
31.12.2014				
Financial debt	0	0	-3,660	285
Interest rate derivatives	19,061	-20,614	48	0
31.12.2013				
Financial debt	0	0	-3,088	886
Interest rate derivatives	3,973	-4,340	7,009	-6,784

2. NUMBER OF EMPLOYEES

On 31 December 2014, 145 staff were employed by the Group (31 December 2013: 197).

	31.12.2014	Average number of employees in 2014	31.12.2013	Average number of employees in 2013
Permanent employees	136	152	185	205
Temporary employees	9	9	12	13
Total	**145**	**161**	**197**	**218**

As in the previous year, the full-time employees will not be reported due to the low proportion of part-time employees.

3. TOTAL AUDITOR'S FEE

The following fees have been recognised as expenses for the services rendered by the auditor of the consolidated financial statements in the financial year:

in EUR k	2014	2013
Audit services	247	143
Other assurance services	924	35
Other services	606	97
Total fee	**1,777**	**275**

Other assurance services essentially comprise the sending of comfort letters in connection with the offer of shares and the admission of the shares to the regulated market (Prime Standard) of the Frankfurt Stock Exchange.

Other services essentially comprise the recharging of liability insurance as part of the creation of comfort letters and FFO prognosis checks.

4. IFRS 2 PROGRAMMES

A) Long-term incentive plan (LTIP) with current shareholders

On 11 April 2014, the Management Board of TLG IMMOBILIEN entered into a bilateral bonus agreement with the direct shareholders of the company. Under the agreement, any future realised appreciation in the value of the company will be passed on to the beneficiaries in the form of a cash bonus payment.

The amount of the bonus to be paid will be determined on the basis of a reference value which is designed to reflect the appreciation of shareholders' invested equity over the term of their investment. The reference value is determined as the total of distributions to the shareholders less contributions made by the shareholders into the investment. The bonus payment is based on a percentage of the reference value, linked to a 0.4% cap.

The bonus payment by the shareholders will be due if several cumulative requirements have been met.

- Occurrence of an exit or partial exit event: neither the direct shareholders nor their associates continue to hold a direct or indirect interest in TLG IMMOBILIEN GmbH or the amount of their interest falls below the total of their current interest.
- Distributions must exceed contributions paid by the shareholders by more than 50.0%.
- At the (partial) exit date, the members of the Management Board of TLG IMMOBILIEN GmbH must continue to be regularly employed by the company.

The incentive programme stipulates a direct payment from the shareholders to the Management Board. The TLG IMMOBILIEN Group is not obliged to make these payments. This bonus programme is therefore accounted for analogously to share-based payments granted to the Management Board of TLG IMMOBILIEN AG in accordance with IFRS 2. This is offset by an additional contribution by the shareholders into the capital reserves.

Based on the assessment of the Management Board of TLG IMMOBILIEN AG as to the likelihood of the aforementioned conditions being satisfied, a bonus payment can be considered likely. The bonus will vest over a total of 18 months after the agreement of the bonus arrangement.

B) New LTIP Management Board contracts with existing shareholders

As part of the IPO of TLG Immobilien, in September 2014 the previous long-term incentive contracts of the management dated April 2014 were rescinded and replaced by new contracts for the Management Board.

The new LTI contracts also provide for a scale in the sense of partial exit(s) and a final exit. Therefore, the first successful partial exit (IPO) will result in a fixed payment of EUR k 1,050 and the transfer of company shares to a market value of EUR k 300 per member of the Management Board.

Following a successful final exit or several subsequent exits leading up to a complete exit, more company shares to a market value of EUR k 850 per head will be transferred to the management. If several other partial exits take place, the second tranche is to be fulfilled proportionately. Similar to the original bonus agreement, the exit bonus agreement is to be recognised as an equity-settled share-based payment.

The replacement of the old contracts with the new contracts is accounted for as a modification of existing agreements in accordance with IFRS 2.28 f. This requires that the old commitment is accounted for as before, and any incremental fair value arising from the new commitment is also recognised as an expense from the modification date.

The incremental fair value is defined as the difference between the fair value of the original programme and the fair value of the new programme, each calculated as at the date of modification. Due to the organisation of the old and new programmes, additional reportable expenses totalling EUR k 1,384 arose on the date of modification. The following commitments to the members of the Management Board exist:

in EUR k	Fair value of old contracts	Fair value of new contracts	Incremental fair value
Peter Finkbeiner	1,508	2,200	692
Niclas Karoff	1,508	2,200	692
Total	**3,016**	**4,400**	**1,384**

These contracts will not affect the liquidity of TLG IMMOBILIEN AG. Likewise, the regulations of IFRS 2 have led to a recognition of expenses which differs in terms of both date and amount.

In the financial year, a total of EUR k 3,438 was recognised as expenses of TLG IMMOBILIEN AG in accordance with IFRS 2.

C) LTI management board contracts

The new employment contracts for the members of the Management Board which were concluded in late September 2014 include a long-term incentive programme for each financial year from 2015 to 2018 (hereinafter referred to as the LTI tranche). An LTI tranche covers a 4-year period. Completion of the defined objectives is determined at the end of the fourth year by means of a comparison between current progress and the target.

The amount of LTI remuneration is contingent on the completion of certain objectives. In this regard, the major objectives are the improvement of the net asset value and the TLG IMMOBILIEN share price compared to the relevant EPRA Europe index.

The contracts of the members of the Management Board cannot be duly terminated. The contract will end if a member of the Management Board becomes permanently unable to work during the term of the contract. The member of the Management Board will receive 100% of his/her LTI if he/she was actively employed during the calendar year in which the evaluation of the objectives commenced. If the member of the Management Board was not employed for the full calendar year, the LTI shall be disbursed at a proportional rate.

The programme contains an option as to the type of settlement for the company and is treated as a share-based payment settled in equity instruments in accordance with IFRS 2. Based on the estimations of the Management Board as to the completion of performance hurdles, personnel expenses of EUR k 158 were recognised as at 31 December 2014 (2013: EUR k 0). An achievement rate of 123.0% was assumed. The fair value on the settlement date was EUR k 2,465. For more information on the Management Board contracts, see the disclosures in the Compensation Report.

5. RELATED COMPANIES AND PARTIES

Related companies and parties are defined as companies and persons which have the ability to control or exercise significant influence over the TLG IMMOBILIEN Group, or which the TLG IMMOBILIEN Group controls or exercises significant influence over.

Accordingly, the members and close relatives of the Management and Supervisory Boards of TLG IMMOBILIEN AG are considered related parties and companies, as are members of management who exercise key executive functions and the TLG IMMOBILIEN Group's subsidiaries, associates and joint ventures.

Before the IPO of TLG IMMOBILIEN AG on 24 October 2014, LSREF II East AcquiCo S.à. r.l., Luxembourg (East AcquiCo) and Delpheast Beteiligungs GmbH & Co. KG were shareholders of TLG IMMOBILIEN AG. After the IPO on 24 October 2014, the percentage of voting rights fell below the 50% threshold and amounted to 42.95% at the end of the year. Therefore, at the end of the year East AcquiCo still had what can be described as significant influence over TLG IMMOBILIEN AG. Therefore, EastAcquiCo and its related companies and parties represent related companies and parties of TLG IMMOBILIEN.

Related companies

In 2014, TLG IMMOBILIEN AG distributed EUR 233.0 mn to East AcquiCo and Delpheast Beteiligungs GmbH & Co. KG. In connection with the share-based payment of the Management Board, the two shareholders contributed EUR 3.4 mn to the capital reserves. The assumption of part of the costs of the IPO resulted in income of EUR 9.8 mn and corresponding receivables of EUR 9.8 mn.

In the 2013 financial year, TLG IMMOBILIEN AG distributed EUR 199.8 mn from the capital reserves, EUR 96.4 mn from the revenue reserves and EUR 29.0 mn from retained earnings to the shareholders at the time. Instead of cash payments, TLG IMMOBILIEN AG covered the loans of the shareholders (EUR 325.2 mn) which served to discharge their obligations. Additionally, the shareholders contributed EUR 20.5 mn to the capital reserves.

The following table shows the receivables and liabilities on the balance sheet date, as well as the income and expenses of the financial year in connection with related companies:

in EUR k	2014	2013
Statement of financial position and statement of comprehensive income		
Credit with other related companies	85,000	0
Liabilities to other related companies	0	87
Expenses for other related companies (interest)	0	547
Expenses for other related companies (guarantee commissions)	230	159
Net interest from other related companies	17	0

The credit with related companies concerns short-term bank balances at IKB Deutsche Industriebank AG.

The results from interests in joint ventures are disclosed separately in the statement of comprehensive income for 2013. These interests were disposed of in 2013.

Related parties

In 2013 and 2014, TLG IMMOBILIEN paid the following remuneration to the members of the Management Board:

The total remuneration of the Management Board in 2014 was EUR 3.0 mn (2013: EUR 1.3 mn). Of this total remuneration, EUR 0.6 mn (2013: EUR 0.5 mn) is attributable to fixed components and EUR 2.3 mn (2013: EUR 0.3 mn) is attributable to variable components. In 2014, non-cash expenses of EUR 3.6 mn–which was allocated to the capital reserves–were attributable to additional share-based payments to the members of the Management Board which were covered by the former shareholders. In 2013, additional payments totalling EUR 0.5 mn were made due to the termination of employment contracts. See the Compensation Report, which is part of the management report, for more disclosures on the remuneration of the Management Board.

Remuneration paid to previous members of the management totalled EUR 0.15 mn in 2014 (2013: EUR 0.15 mn). In 2014, EUR 2.8 mn was placed into reserves for pension obligations to past members of the management (2013: EUR 2.7 mn).

The Supervisory Board was established on 5 September 2014. In line with the Articles of Association, all Supervisory Board remuneration is payable at the end of each financial year. The remuneration paid pro rata to the members of the Supervisory Board for the 2014 financial year totalled EUR 0.1 mn (2013: EUR 0.0 mn). The expenses became cash items in 2015.

6. CONTINGENT LIABILITIES

There are the following contingent liabilities for items for which the Group has issued guarantees to various contractual partners:

in EUR k	31.12.2014	31.12.2013
Land charges	796,221	623,175
Negative covenants	0	78
Total	**796,221**	**623,253**

7. OTHER FINANCIAL OBLIGATIONS

As at the balance sheet date, the other financial obligations of the Group consisted of EUR k 630 (2013: EUR k 691) in future payments (net) resulting from operating leases and a commitment of EUR k 54,253 (2013: EUR k 41,005) for investment property and property, plant and equipment.

The company has diverse service contracts for IT services, building cleaning, reception staff and security services, as well as vehicle rental contracts for its fleet of vehicles. Additionally, rental agreements on the leasing of space for archiving purposes were concluded in 2014. These operating leases serve the company's ongoing business operations and are advantageous in that high-investment measures and the corresponding outflow of liquid capital are not necessary. The operating leases are not considered risky.

The obligations from future minimum lease instalments resulting from non-cancellable operating leases mature as follows:

in EUR k	31.12.2014	31.12.2013
Due within 1 year	131	145
Due up to 2 years	58	65
Due up to 3 years	5	37
Total	**194**	**247**

There are also future payment obligations of EUR k 297 (previous year: EUR k 444) from service contracts and payment obligations of EUR k 139 (previous year: EUR k 0) from rental agreements.

The expenses for minimum lease instalments in the 2014 financial year totalled EUR k 216 (2013: EUR k 577).

8. SHAREHOLDING LIST

As at 31 December 2014, TLG IMMOBILIEN AG holds interests in the following fully consolidated companies:

Name and registered offices of the company	Shareholding in %	Equity on 31.12.2014 in EUR k	Results of the 2014 financial year in EUR k
TLG Gewerbepark Grimma GmbH, Grimma	100	12,545	1,297
TLG Vermögensverwaltungs GmbH, i.L. Berlin	100	24	3
Hotel de Saxe an der Frauenkirche GmbH, Dresden	100	27,783	1,355
Verwaltungsgesellschaft an der Frauenkirche mbH, i.L. Dresden	100	87	-4
TLG FAB S.à r.l.	94.9	32,407	86

Compared to the previous year, one company was added to the portfolio of fully consolidated companies. TLG FAB S.à r.l. was consolidated for the first time in the 2014 financial year. For more information see sections C.2 and C.3.

The portfolio of fully consolidated companies was as follows on 31 December 2013:

Name and registered offices of the company	Shareholding in %	Equity on 31.12.2013 in EUR k	Results of the 2013 financial year in EUR k
TLG Gewerbepark Grimma GmbH, Grimma	100	11,248	-6,623
TLG Vermögensverwaltungs GmbH, i.L. Berlin	100	251	-10
Hotel de Saxe an der Frauenkirche GmbH, Dresden	100	26,428	1,370
Verwaltungsgesellschaft an der Frauenkirche mbH, i.L. Dresden	100	21	-8

As at 31 December 2014, two companies which were recognised at cost in the long-term financial assets of the Group due to their lesser significance had been disposed of by TLG IMMOBILIEN. In the previous year, the situation was as follows on 31 December 2013:

	Interest in %	Equity on 31.12.2013 in EUR k	Results of the 2013 financial year in EUR k
Investitionsgesellschaft Hausvogteiplatz 11 Verwaltung mbH, Berlin	50	23	1
Investitionsgesellschaft Hausvogteiplatz 11 mbH & Co. KG, Berlin	50	267	43

9. DECLARATION OF COMPLIANCE UNDER § 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

The Management and Supervisory Boards have fulfilled the recommendations of the German Corporate Governance Code as set out in the management report. The declaration of compliance shall be made available to the shareholders when the annual report for 2014 is published in the Investor Relations section of the company's website www.tlg.eu.

Berlin, 19 March 2015

Peter Finkbeiner
Member of the Management Board

Niclas Karoff
Member of the Management Board

AUDIT CERTIFICATE

The auditor issued the following statement with regard to the consolidated financial statements and Group management report:

"We have audited the consolidated financial statements prepared by TLG IMMOBILIEN AG, Berlin, consisting of the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes, as well as the Group management report for the financial year from 1 January to 31 December 2014. The preparation of the consolidated financial statements and the Group management report pursuant to the IFRS, as applicable in the EU, and the regulations of commercial law as per § 315a(1) of the German Commercial Code (HGB) that supplement these, is the responsibility of the company's legal representatives. Our task is to submit an assessment of the consolidated financial statements and the Group management report based on the audit conducted by us.

We carried out our Group audit in accordance with § 317 HGB with consideration for the generally accepted accounting principles in Germany that were established by the German Institute of Auditors (IDW). These stipulate that the audit must be planned and conducted in such a way that irregularities and infringements that could materially affect the representation of the assets, financial and earnings position of the Group by the consolidated financial statements in compliance with the generally accepted accounting principles and by the Group management report can be identified with a sufficient degree of certainty. When the audit activities were determined, account was taken of existing knowledge about the business operations of the Group and the commercial and legal environments in which it operates, as well as expectations of possible errors. The effectiveness of the internal accounting control system and evidence of the amounts and disclosures in the consolidated financial statements and the Group management report are examined primarily on a random basis as part of the audit. The audit includes an assessment of the financial statements of the companies included in the consolidated financial statements, the delimitation of the consolidated entity, the accounting and consolidation principles applied and the significant estimates made by the legal representatives, as well as an evaluation of the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a sufficiently sound basis for our assessment.

Our audit did not give rise to any objections.

In our estimation, based on the information gathered during the course of the audit, the consolidated financial statements comply with the IFRS, as applicable in the EU, and the regulations of German commercial law as per § 315a(1) HGB that supplement these, and, in compliance with these regulations, communicate a true and accurate picture of the assets, financial and earnings position of the Group. The Group management report is consistent with the consolidated financial statements, communicates an accurate overall picture of the Group's situ-ation and accurately describes the opportunities and risks of future development."

Berlin, 20 March 2015

Ernst & Young GmbH
Auditors

Plett	Pilawa
Auditor	Auditor

FINANCIAL CALENDER

1 JUNE 2015
Publication of quarterly financial report Q1/2015

25 JUNE 2015
Annual general meeting

31 AUGUST 2015
Publication of quarterly financial report Q2/2015

30 NOVEMBER 2015
Publication of quarterly financial report Q3/2015

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